EDC REPRESENTATION IN BRAZIL | CANADA'S CONSULATE GENERAL IN LOS ANGELES

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INSIDE

Introducing EDC's

National Industry Stakeholder Panel

On June 15, 2006, EDC launched a new National Industry Stakeholder Panel as part of our efforts to connect better with Canadian exporters and investors. Below are excerpts of the remarks made by EDC's Acting President, Eric Siegel, to kick off the session. In our fall edition, we will provide an update on the feedback we received during this initial session.

We have brought together leaders representing key business associations with members in every sector and region. How well EDC can help Canadian business meet their new trade challenges is going to be a key ingredient of their success. We are looking to your knowledge, your experience and your instincts to tell us how we are doing in that job, where we should do more and where we can do better.

In today's world, two-way trade and cross-border investment are just as essential to any successful company's business planning as its export sales strategy. Since trade today is a continuum, we have to be creative at all points of it – from insuring receivables and foreign investments, to financing foreign investments or buyers of Canadian goods and services, to helping Canadian companies increase their working capital – even taking equity positions where needed. Everything we are doing is for one goal: do more business, with more Canadian companies, in more markets around the world.

Outbound foreign direct investment is increasingly important to Canadian companies. They are investing in global supply networks to acquire cheaper inputs. They are also specializing in value-added production at home. EDC has a key potential role here. EDC will be supporting new foreign investments, mergers and acquisitions related to foreign affiliates, as well as providing financial services to existing Canadian affiliates. These solutions can be provided both in Canada and in foreign markets.

We are in a position today to support exporters and investors where risks are inherently greater. That includes strategic risk capital available to support greater risk appetite in key emerging markets like Brazil, Russia, India and China, as well as a range of countries where we can make an effective difference such as Venezuela, the Dominican Republic, Algeria and Nigeria.

EDC has long standing relationships with major buyers and financial institutions in most of the key emerging markets. This year we are expanding our representation in China to include Shanghai as well as Beijing, and for the first time representation will be established in Moscow.

We need to increase awareness of EDC among SMEs, and increase the level of understanding of how our products and services can provide SMEs with a competitive edge. We know there are a lot more out there we could be helping. And even those who use us are not using us fully and to greatest effect. Right now, less than four per cent of our customers use more than one of our services. We are sure that more Canadian companies could gain advantage abroad by using a combination of our services and accessing a full range of tailored services as a result.

For many reasons, we believe EDC is uniquely poised to do more for many more companies. We are seeking your experience and advice to help identify where our efforts can be better focused to meet business needs and help overcome the challenges your members face. We feel that your experience and advice can show us where we could have the greatest impact to help Canadians take advantage of the very great opportunities that today's trade environment also offers. ■

EDC's President and CEO Rob Wright was appointed Deputy Minister of Finance by the Prime Minister and assumed his new role on June 12, 2006. EDC's Board of Directors has appointed Eric Siegel, EDC's Chief Operating Officer, to the role of Acting President.

ExportWise

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India's Tata Group

Business Empire on Buying Spree

BY GLORIA LEVY

Photo: © Indiapicture / Alamy

▲ Tata steel plant, Jamshedpur Bihar, India.

The Tata Group, India's oldest and largest conglomerate, is in the midst of a major expansion, presenting opportunities for Canadian companies on many fronts.

Comprised of more than 90 companies in seven business sectors and operating on six continents, the Group's interests range from IT and telecom to engineering, automotive, energy, consumer products and chemicals. Collectively, it employs some 220,000 people and has a shareholder base of more than two million.

An aggressive thrust onto the international arena has been critical to Tata's growth strategy. The focus on globalization has led to a slew of foreign acquisitions, many of them low-key. Case in point is its first international purchase: Tetley Tea in the United Kingdom in 2000. Since then, Tetley has become Tata's most notable presence in Canada.

EDC has some history with the Tata Group, and there is tremendous potential to grow the relationship more to benefit Canadian exporters, says Mark Bolger, EDC Advisor, International Business Development. "In 2005, EDC Accounts Receivable Insurance was used in Tata's procurement from three exporters. And Tata subsidiaries in Canada are buying from Canadian exporters in sectors such as chemicals, IT and advanced technologies, while some of our auto component manufacturers are discussing third-market opportunities with Tata. EDC is working to take advantage of the synergies between Canada and India and engaging Tata's business with the best that Canada has to offer, particularly in telecom and wireless technologies."

India is more than a destination, it is a platform to the world, stresses Bolger.

"It's not just about two-way trade anymore: it's about using India as a hub for third market opportunities. The Tatas are actively searching for strategic partners and this means great prospects for Canadian companies."

Primary areas of interest to EDC and Canadian firms, in which Tata is heavily involved, are telecom, IT, automotive and steel. "We are actively positioning EDC to participate in the plans of Canadian exporters and investors to engage with the Tatas in these sectors," says Peter Nesbitt, EDC Chief Representative in India. "EDC is working closely with the Tata Group by supporting its global telecom aspirations in Canada, South Africa and India

In 2005, Tata subsidiary VSNL acquired Montreal-based Teleglobe for USD 239 million. David Good, Chief, Tata Group North America, explains how this acquisition – and Canada as a whole – fit into Tata's telecom and broader growth plans. "Canada has a highly-developed telecom market. We were looking for a company that would increase the voice and data used in our network and chose Teleglobe because of its broadband capabilities and heavy traffic. With this move, VSNL has become the world's third largest voice and data carrier. It is all part of our plan to extend our telecom capability around the globe."

EDC provided USD 75 million to VSNL to complete the purchase of Teleglobe. "This is a great example of how EDC can support Indian corporations, not just by financing their imports from Canada but also by supporting their investments in Canada," says Nesbitt. "Tata is committed to growing the business in Canada. It's win-win for all parties: Canada, the Tatas and EDC."

OPPORTUNITIES

There are opportunities with Tata automotive and auto auxiliary players for Canadian firms, particularly for components. "Tata has several joint ventures with American companies and we are interested in establishing some with Canadian firms," says Good. Tata Motors is leading the production of indigenous cars in India and exporting them to Europe and Southeast Asia. "Given our own automotive capabilities in Canada, EDC is looking to participate in Tata Motors' funding requirements and introduce them to Canadian businesses for the purpose of partnering in India and in third markets," adds Nesbitt.

Toronto-based Magna International is working closely with Tata Autocomponents. "Magna has been engaged in discussions with various Tata units in the automotive sector," says Prasen Agali, General Manager, India in Mumbai. "With the well-established Tata brand name and its various executives living the Tata image, we are comfortable in partnering and supporting the Group as we develop our Indian presence."

Photo: courtesy of Canpotex

▲ Canpotex potash products, meeting the diverse and growing needs of international customers.

EDC is also helping Tata Steel to identify ways to support its expansion plans inside and outside of India, as it looks to bring on new steel processing units. "We do that by supporting their financing requirements and, by establishing a relationship with the company, we are able to introduce them to Canadian suppliers," says Nesbitt.

Tata Consultancy Services (TCS), India's largest IT company and pioneer of the global delivery model, also wants to work with Canadian firms both in Canada and in India. Mukesh Gupta, TCS Canada's Director of Strategic Relations, explains that TCS has embarked on a three-pronged approach to expanding its Canadian presence: "First, we are using Canada as a market to grow into and offer our technical expertise. Secondly, we are able to follow our customers as they enter Canada as a new marketplace, because our flexible delivery model allows us to provide them with the methodologies they are used to. Lastly, Canada's proximity and similarity in culture and time zones to the United States enables us to better service our American and global customers."

TCS also sees Canada as fertile ground from a human resource perspective. "Skilled people are our main asset," adds Gupta. "It is strategically important for us to build relationships in the academic, science and technology communities, and Canada has an established leadership position in these areas. Banking and insurance continue to be a large industry segment in which we have built expertise over the years, having carried out a number of large projects in Canada. In particular, Canada has advanced clearing and debt settlement capabilities." In 2003, TCS won the Banker Technology Award for its multi-year CDSX project executed on behalf of the Canadian Depository for Securities.

One company that has capitalized on relationships with both Tata and EDC is Saskatchewan-based Canpotex, the world's largest exporter of potash. Since 1998, Canpotex has supplied almost 1.5 million metric tons of potash to Tata Chemicals Limited (TCL), worth about USD 200 million. "TCL is an extremely professional organization, with excellent management. They also share our commitment to integrity, quality, customer service and logistics," says David Rogiani, Canpotex Vice President of Marketing for South Asia and Europe. "We also have similar aspirations for the Indian agriculture sector: to boost potash consumption through balanced fertilization, thereby increasing crop yields and quality."

Rogiani adds that EDC has played an integral role in Canpotex's business with TCL by providing open account trade insurance. "In addition," he says, "EDC has taken the time to visit our customers in India (including TCL) several times to understand the Indian business and cultural environment and our customers' needs. They have also been very cooperative in increasing our trade limits to accommodate the record volumes and prices that were experienced in 2005."

There are many ways for Canadian firms interested in partnerships to approach the Tata Group. "Contact our North American headquarters in Washington and we can pass details on to our various companies," advises Good. "Or get in touch directly with Tata subsidiaries in North America, as listed on our website, or call EDC." ■

Canada's Environmental Sector

Preparing for the Future

BY DENNIS AND SANDI JONES

The Canadian environmental industry consists of a diverse variety of technologies and services, some of which are well-proven and gaining sales in international markets. But others are still emerging from their pre-commercial R&D stage, and it will take a determined effort by Canadian exporters and their trade partners in government to make them commercially viable.

The potential of the environmental industry lies in a new generation of clean technologies, alternative energy sources and the environmental products that are quietly being developed by hundreds of companies and institutions across the nation. But many of these technologies are associated with energy and, given the vast resources that make our energy relatively inexpensive, new energy-efficient technologies being developed in Canada cannot currently compete on price with our traditional resources.

As a result, these technologies have trouble finding a domestic market, which is a disincentive to development, despite the fact that such technologies might be very attractive in a high-priced energy jurisdiction like Europe.

A MOSAIC OF SUBSECTORS

If a company makes equipment that removes oil-field wastes from the environment, does that company belong to the environmental industry or the oil and gas industry? It depends on the angle of view.

That's because the boundaries of Canada's "traditional" environmental industry are becoming less defined as the sector expands into new technologies that range from biomass-based ethanol production to vehicles powered by fuel cells. Seen from this perspective, there's actually no single Canadian environmental industry, but rather a mosaic of subsectors associated with a broad spectrum of other industries.

Despite the diffuse nature of the business, though, its market is potentially very large, both at home and abroad. Canada also enjoys an edge in several environmental-technology areas, which can contribute to our competitiveness – we're a leader in hydrogen technology, for example, and in environmental management for major resource industries such as oil and gas. However, opportunities for long-term success are being eroded by several factors, including the diminutive size of most Canadian environmental companies, the small Canadian market for their products and the sharpening competition from foreign businesses.

A HAZY PICTURE

The industry's size and performance are somewhat difficult to quantify. The core of the sector, however, which includes waste management, environmental remediation and pollution control, is about the same size as Canada's aerospace industry. That's the estimate of John Wiebe, President and CEO of the GLOBE Foundation of Canada, a private, non-profit institution created to help the Canadian environmental industry capitalize on its international opportunities.

"In 2004," says Wiebe, "there were about 10,000 firms in the core of the sector. They employed 251,000 people and did close to $30 billion worth of business. Exports only accounted for $1.3 billion of that, so our export strength obviously isn't very high – especially when you consider that this is a trillion-dollar global business, and that we have only about 0.02 per cent of the market. So there's plenty of opportunity out there."

Corinne Pitre, formerly EDC's Business Development Advisor for Energy and currently National Sales Advisor, sees the sector as being of considerable strategic importance to Canada. "We're world leaders in several environmental technologies," she observes, "and we have a very good chance of becoming a key player in these areas. Many of these technologies are still in the pre-commercial stage, but we can make them commercially viable for Canadian exporters if we put some determined effort into doing so."

If we seize our opportunities, an important share of Canada's export future will lie in renewable energy, hydrogen power systems, fuel cells, water treatment and clean transportation systems. Such emerging technologies and the subsectors they support will become more important, as the global emphasis shifts from the traditional approach of "create the mess and clean it up afterward" to "use clean technology so you don't make the mess in the first place."

WHAT MAKES CANADA STRONG?

We already have expertise in environmental products, processes and services that are applicable to major resource sectors including mining, oil and gas, and pulp and paper.

Many Canadian companies are working on pre-commercial products and services that could make Canada a leader in the environmental sector.

There is government support for the development of new and refined environmental technologies, for pre-commercial R&D and for technology transfer to the marketplace.

ENERGETIC ENDEAVOURS

Ever-escalating oil prices and a growing demand for alternative energy sources are among Canada's realities for the 21st century. The energy sector has been working hard to develop cleaner technologies for energy extraction and generation, and utilities are placing fresh emphasis on demand management and energy efficiency. The R&D being carried out in our energy subsector is establishing a strong foundation for the eventual export of these technologies and products.

Such R&D is the specialty of the CANMET Energy Technology Centre-Ottawa (CETC-Ottawa), the federal government's leading institution for the development of energy-efficient, alterna-

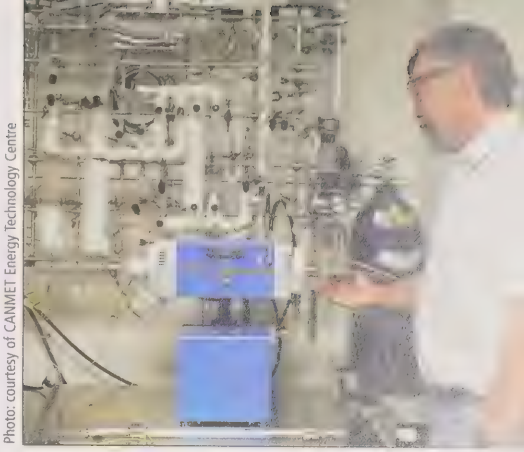

Photo: courtesy of CANMET Energy Technology Centre

▲ Ottawa-based CANMET Energy Technology Centre leads the way in developing energy-efficient, alternative and renewable energy technologies.

tive and renewable energy technologies. CETC-Ottawa's multi-building facility is home to numerous projects including high-efficiency combustion research, biofuel development and gasification technologies.

"CETC-Ottawa both carries out and supports very innovative work," says Geoff Murphy, the institution's Manager of Business Development and Marketing. "Our role is to be research leaders and to help industry find ways to use our research results. One example is our development of advanced technologies that will make coal into a cleaner energy source; another is our work on SuperCetane, a biodiesel additive that reduces engine-pollutant emissions and improves fuel economy. In addition, a large proportion of the funds that we manage goes directly to industry. For instance, we administer the federal government's Industry Energy Research and Development Program, under which we've supported projects that include the development of high-efficiency industrial electric motors and refrigeration compressors."

SUSTAINING SUSTAINABILITY

R&D is only part of the story, though, because its fruits ultimately must be commercialized. Sustainable Development Technology Canada (SDTC), established by the federal government in 2001, is a non-profit foundation that provides financing and support for companies that are developing sustainable energy and environmental technologies. SDTC currently invests in 75 projects, with 65 per cent of this investment allocated to energy exploration and production, power generation (including renewables) and the development of efficient ways to use energy in the industrial, commercial and residential sectors.

"We work in the pre-commercialization area," says Dr. Vicky Sharpe, SDTC's President and CEO, "and de-risk technologies so they can attract private-sector funding after our projects are completed. The technologies we fund and the companies we support create a cleaner, better solution for industry up front, rather than leave the pollution to be dealt with afterward. That's an important perspective, because it leads us to technologies with a market advantage from the outset."

EDC is also active in developing the industry's export market, in conjunction with other export credit agencies that are also members of the Export Credits Group of the OECD. "As agreed by members of the group," notes Pitre, "we can provide foreign buyers with long-term financial support for renewable energy and water projects that will use Canadian technologies. EDC can support these technologies so they can compete more effectively with traditional approaches to providing energy and water."

In Canada, the largest markets for environmental technology are the resource industries, particularly oil and gas, pulp and paper, and mining. Cities and municipalities, with their needs for water and waste management, constitute another large pool of customers. Most of what they currently buy, though, are "traditional" environmental products, which means that companies working on new technologies can't depend on the Canadian market alone for their survival.

Photo: CP PHOTO/Larry MacDougal

▲ Canada's abundant energy reserves can discourage R&D into energy alternatives.

WHERE DOES CANADA FALL SHORT?

In both capitalization and manufacturing.

The "chicken-egg problem" of developing infrastructures in the absence of a market hampers the adoption of new products.

Many companies are too small to compete effectively and find it difficult to attract investment.

Cheap Canadian energy discourages R&D into new energy regimes.

TENDER SEEDLINGS

But can Canadian environmental companies sustain themselves long enough to move out of the domestic market into the global arena? Some are certainly managing to do so, but the sector has domestic weaknesses that need to be addressed before the trickle can become a flood.

"We're weak in both capitalization and manufacturing," says Wiebe. "Unfortunately, these feed back into each other because we can't build high-technology products here if we don't have a market for them. That's why so much of our high-tech equipment, from wind turbines to phase-shifting transformers, comes from outside. We need to decide whether we're going to have a high-tech environmental industry here at all, and then work toward creating markets that will support production facilities within Canada."

A second fundamental weakness is the "chicken-egg problem" of building infrastructures for specific markets. One good example of this, according to Karen Mallory, EDC Environmental Exports Advisor, is consumer acceptance of hydrogen-powered automobiles. "Making hydrogen into a mainstream transport technology requires more than just developing hydrogen-driven cars," she points out. "We need to put a fuelling infrastructure into place before we can build the market, but at the same time, we need to build the market before we can justify building the infrastructure. Which do we do first?" This problem bedevils both alternative fuel technologies and many other parts of the sector, but it's not insoluble in practice; fleets of locally operated vehicles could be a good start, with one or two fuelling stations set up to serve them.

OAKS FROM ACORNS, BUT NOT YET

A third problem lies with the size of our environmental companies. There's a handful of large ones at the top, a much larger number of small firms at the bottom, and very little in between. "It's the medium-sized companies we could really help on the export side," says Murphy. "Small ones, like the new clean-energy companies, have a very hard time of it, because they often can't afford to look overseas even if there's a good chance of finding customers there. So Canada needs to help these small domestic businesses grow into medium-sized exporters, and we have to start now, because it takes time for that growth to happen. We also need to put on more demonstrations that prove the viability of our technologies to potential customers abroad, but we're weak in supporting that as well."

Vicky Sharpe agrees that the small size of Canadian environmental companies is a problem. They can't easily address the international marketplace because of their lack of market capitalization, but the lack of a domestic market means they don't have the luxury of getting big before they look abroad for customers. One useful tactic would be for all levels of Canadian government to institute more extensive "green" procurement programs. Since governments are major buyers of technology, this would noticeably expand the Canadian market and help underpin the sector's efforts to develop markets abroad.

AN EMBARRASSMENT OF RICHES

Ironically, a fourth weakness arises from the vast resources that make Canada's energy so cheap; because we're a low-cost energy jurisdiction, the new energy-efficient technologies being developed here can't compete on price with our traditional resources. As a result, these technologies have trouble finding a domestic market even though they're cleaner and more efficient than older ones. This is a disincentive to development, despite the fact that such technologies might be very attractive in a high-priced energy jurisdiction like Europe. As a result, it's those countries that are developing new energy technologies, while Canada's relatively low prices cause us to lag behind. Those prices will inevitably rise, however, and we may end up purchasing foreign, high-efficiency technologies that might otherwise have been developed at home.

CONVERGING OPPORTUNITIES

The current expansion of the global environmental sector is the result of several converging influences that include the depletion of crude-oil resources, the reality of climate change and the needs of emerging economies. As a result, the international market for sophisticated environmental products and services is poised to increase very quickly.

The United States is Canada's largest market and absorbs 85 per cent of our environmental exports. That's not likely to change, but there are many other opportunities to be found, especially in Asia. China's severe difficulties with air, soil and water pollution, and its energy dependence on low-grade coal, for example, make it a target for Canadian companies that specialize in environmental remediation and clean coal technologies. India also has vast supplies of coal, so it's another candidate for these Canadian exporters. And both these countries are promising markets for alternative-energy technologies: biofuels, hydrogen systems, fuel cells, waste-to-energy conversion and biomass are all areas where Canada has expertise.

Canada's experience with its own oil and gas fields has also led to the development of technologies that are exportable to other oil-producing countries: Our enhanced extraction mechanisms cause less damage to the environment than older processes, and we have new, ecologically responsible ways of permanently disposing of oil-field wastes. Even so, our oil-sand extraction processes are still inefficient in their use of energy, which presents great opportunities for improvement.

URBAN URGENCIES

Cities, in both the developed and the emerging world, offer many other possibilities. Most would benefit from the adoption of green building and construction methods, an area in which Canada has considerable strength because of the research carried out at CETC. Low-pollution urban transit systems are another area of need, and these will require not only vehicles and their related hardware, but sophisticated control and monitoring systems as well.

Automobile transportation is another major opportunity. In both China and India, as elsewhere in Asia, private vehicle ownership is growing and is leading to increased pollution and oil consumption. Clean, renewable fuels will help here, as will improved public mass-transit systems that reduce the number of cars on the roads.

Photo: REUTERS/Reinhard Krause

▲ China and other developing countries have huge problems with pollution, an area where Canada can help.

Capitalizing on these opportunities will involve some major challenges, though. "We're competing on a global basis," says Wiebe, "and it doesn't help that the sector tends to spread itself very thin in Canada, both geographically and financially. We need to get really good at a few things – we should assume a world product mandate for a small number of key technologies, for example, and put everything behind them."

WHERE DO THE OPPORTUNITIES LIE?

The U.S. is our largest customer and will remain so for the foreseeable future.

Clean energy, especially from coal, will have great appeal in India and China. Enviro technologies for oil & gas fields will be in demand.

Low-pollution transportation systems and clean automobiles will be needed globally, but especially in Asia.

Cities everywhere will need sustainable technologies for constructing green buildings and for waste and water management.

But is it too risky to enter these unfamiliar, emerging markets? "The environmental sector is extremely diverse," EDC's Mallory points out. "You're selling different kinds of equipment and services to all kinds of clients, so there isn't a single answer to the risk question. That's part of the reason why the market is very challenging. But from EDC's perspective, we don't see that the overall risk is outside the norm for any export market, and our credit, bonding and insurance products, which are well used by the sector, are designed to mitigate that risk."

STIFF COMPETITION

The scramble for the global environmental market is well underway. Canadian companies face stiff competition from our chief rivals, the United States, Japan and Europe. "Their governments and businesses tend to approach the market in an integrated way," says Wiebe, "and if we're going to compete, we need to establish much tighter understandings between our own environmental companies and Canadian governments at all levels. The United States, for instance, often ties aid packages closely to the purchase of American technologies, and the Europeans have a much higher degree of government guarantees and subsidies than we do."

This threat is heightened by the fact that, although we have many innovative companies, they're not aggregated in ways that allow them to accept the risks of developing new technologies and products. Government institutions like SDTC and CETC-Ottawa are, consequently, essential for undertaking those risks that the private sector won't address at this level, and these institutions need to be supported by both funding and policy. "If we don't keep these mechanisms," warns Sharpe, "Canada is going to lose any advantage we might have. We're already seeing other countries jumping into the

lead, and we need to make sure we stick with initiatives long enough to get the market returns that our current investments are intended to achieve."

CETC-Ottawa is also acutely aware of the difficulties facing the sector and is doing its part to alleviate them. "We collaborate with other governments," Murphy observes, "and we're very ready to do the same with industry leaders abroad. We're always looking for advanced technologies we can bring to Canada, and for partnerships that will speed up the adoption of clean energy. We're also active in promoting Canadian clean-energy capabilities internationally, and we're very eager to encourage the export of Canadian leading-edge technologies abroad."

Government policy at all levels can be crucial for the survival of smaller environmental companies, especially those that are in the pre-commercial stage or aren't yet robust enough to venture abroad. The Europeans are active in such policy-making; in Germany, the government pays top rates for electricity generated by small producers who use solar and wind technology. Sweden is focusing on biomass and wind, and the United States has established an Asia-Pacific partnership program that supports the development of environmental markets. This kind of goal-oriented policy-making has been scarce in Canada, and the shortfall exposes our environmental sector to competitive threats from better-organized jurisdictions.

WHAT THREATENS THE SECTOR?

We're facing stiff competition from foreign companies, especially American, European and Japanese firms.

If we don't maintain public institutions that can accept risks for the private sector, we face competition from countries that do.

Lack of policy goals and direction, for both exports and the domestic market, expose the sector to threats from countries with clearly established intentions and strategies.

Photo: © Frank May/epa/Corbis

▲ Solar panels in Germany. Many European governments are far mòre supportive of alternative energy solutions.

GREENFIELD GROWTH

Given that exporting will be a crucial factor in the growth and evolution of the sector, what business strategies are most likely to be successful for Canadian companies? One approach is to take advantage of the fact that many of the technology suppliers in the environmental sector are subsidiaries of bigger companies. Small Canadian firms can develop relationships with these larger entities by filling niches within their supply chains, which in turn contributes to the smaller firm's financial health and its ability to innovate. A variation on this approach is to identify foreign projects that will require an environmental component, find out which firms are handling these projects, and try to become the supplier of record for the products and services that are needed.

As with most export markets, finding local partners who know the market's business culture, and especially its environmental regulations, will usually be a prerequisite for successful market entry. Connecting with a strategic partner or investor is a related avenue; a large industrial company might see promise in a small firm's products, take the smaller business under its wing and move its new partner's technology into the international market. "Try to learn from people who already have market share," says Sharpe in this regard, "and see if you can arrange a way to work with them. If you can, take advantage of this and move quickly, because the sooner you have market penetration, the better. That's hard for small companies to do, but it's essential."

Like the needs it serves, Canada's environmental industry is an emerging one. It's so dispersed that its exact promise is hard to define, but it's already clear that it's an important economic generator. Because it's a work in progress, much of what it offers is still potential, but that potential goes far beyond the preoccupations of the traditional environmental industry. Its promise lies in a new generation of clean technologies, in alternative energy sources, and in the environmental products that are quietly being developed by hundreds of companies and institutions across Canada. ■

Access to up-to-date information on business opportunities and market intelligence is indispensable. To help make this data available, EDC and the GLOBE Foundation established **GLOBE-Net**, *an online guide to the environmental sector that provides a weekly report on emerging opportunities. www.globe-net.ca.*

OUR EXPERTS: For this article, we consulted four experts wih a broad range of experience in Canada's international trade and the environmental sector in particular:

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SunOpta

Spinning Straw into Gold

BY DENNIS AND SANDI JONES

In a world where renewable fuels are poised to assume ever-increasing importance, SunOpta Inc.'s BioProcess Group has an edge – not just in its long experience with the science of ethanol production, but also in the advanced technology that comprises the Group's core business.

The BioProcess Group is in the right place at the right time, as ethanol is becoming an important part of the world's energy mix for many reasons: ethanol-gasoline blends pollute less and they can help reduce the global dependence on oil. However, much of the world's ethanol currently comes from corn- or wheat-derived starch, and it's unlikely that we can grow enough of these crops to meet the demand. As a result, supplying our needs is going to be a challenge unless we turn to the aggressive exploitation of "cellulosic ethanol".

Photo: courtesy of SunOpta Inc.

▲ SunOpta BioProcess Group's proprietary technology can convert virtually any plant mattter into ethanol.

ENTER SUNOPTA

Which is where the SunOpta BioProcess Group comes in. Its proprietary StakeTech Steam Explosion System removes starch from the equation entirely by using cellulosic ethanol technology to convert cellulose, rather than starch, into a feedstock that can be used to make ethanol. And since cellulose is the basic ingredient of biomass, the company's process can start with virtually any plant matter, from wheat straw to wood chips, leaving ethanol.

SunOpta Inc. has three divisions: the BioProcess Group; Opta Minerals Inc., specializing in industrial minerals; and the Food Group, which focuses on the natural and organic food market. The Food Group is now the corporation's major earner, but bioprocess technology is where SunOpta got its start in 1973, and the company has been refining, developing and exporting its technology ever since.

EXPORTING TO SURVIVE

"We originally became exporters in order to survive," says Murray Burke, the division's Vice-President and General Manager. "Currently there's no commercial cellulosic ethanol being produced in Canada, since doing so is more expensive than making it from starch. As a result, all our sales are export sales. But we're doing a lot of innovation to reduce the costs of cellulosic ethanol production, and we definitely anticipate contributing to Canada's demand for renewable fuels in the future."

The BioProcess Group has faced some challenges in its export career. "We accepted from the beginning that we'd have to make our living outside Canada," Burke observes, "and we've succeeded because we have an excellent product that's recognized around the world. Even so, marketing a leading-edge, multimillion-dollar technology can be extremely difficult. For us, it's become preferable to sell our product into developed countries that have the financial resources and the technical expertise to cope with it. Emerging markets are an area we're leaving for the future."

Given this emphasis on exports, it's only natural that the BioProcess Group and EDC should work together. Since the early 1990s, EDC has been providing the bonding that the division's customers require as guarantees for quality, performance and delivery. "Almost invariably," Burke says, "bonding makes the difference between getting the contract and not getting it, so EDC support has been important for us."

A WORD FROM THE WISE

Burke has some advice for advanced-technology biofuel companies that are considering the export business. First, it's preferable to sell this level of technology into developed countries. Second, it's a good idea to work with customers that are involved in the energy business, or have some kind of synergy with what the Canadian exporter is offering. Third, foreign buyers should have immediate access to significant resources of hard-currency capital.

That sounds like a tall order, but renewable fuels are going to be one of the world's new realities. And as SunOpta has shown, Canadian biofuel technologies can be just what the world is looking for. ■

Company:	SunOpta BioProcess Group (a division of SunOpta Inc.)
Business:	Proprietary steam-explosion technology systems for pulp, biofuel and food-processing industries
Location:	Brampton, Ontario
Employees:	10 for the BioProcess Group
Exports:	100% for BioProcess Group
Markets:	United States and Europe
Contact:	www.sunopta.com (905) 455-2528

New Standards for Environmental Protection

BY GREG RADFORD

The majority of project finance projects in developing countries will soon be conforming to new international standards for environmental and social performance. Canadian companies pursuing or running such projects should take note.

Photo: Jay Brousseau/Getty Images

The International Finance Corporation (IFC), the private-sector lending arm of the World Bank Group, has adopted new environmental and social standards which it will apply to projects where it provides financial products and services. The new "Performance Standards" will replace the previous IFC environmental and social safeguard policies.

This will impact companies around the globe pursuing international projects, because these environmental standards are expected to become the benchmark for project development and design in all emerging markets in the near future. Already, some 40 major commercial banks, which represent roughly 80 per cent of global project finance, apply IFC standards to their project finance lending.

Who needs to know? Understanding these new environmental and social standards should be of interest to project investors, exporters and consultants who work closely with the IFC and export credit agencies in emerging markets.

ONE GOAL: BETTER PROJECT RESULTS

"The new standards will foster more and better investment in the emerging markets. At roughly $350 billion, the flow of private capital into developing countries is now more than four times the amount of international aid, so private-sector investment is critical to development," says IFC's Rachel Kyte, Director, Environment and Social Department.

She adds that the new standards will enable the IFC to help companies operating projects in developing countries to minimize their impact on the environment and engage more constructively with local communities.

The new IFC Performance Standards define proponents' (companies or entities pursuing and developing the project) roles and responsibilities for managing their projects, and requirements for receiving and retaining IFC support. These include integrating social and environmental assessments, applying core labour standards, controlling greenhouse gas emissions, and assuring community health and safety standards, as follows:

Integrated environmental and social assessment and management systems:

requires use of management systems to ensure effective performance in both these areas throughout a project's life.

Labour and working conditions:

addresses the four core International Labour Organization standards (unforced labour, anti-child labour, nondiscrimination, and freedom of association and collective bargaining).

Community health and safety:

requires companies to consider a project's effects on health and safety in the surrounding community beyond the project itself.

Pollution prevention and abatement:

requires companies to prevent or minimize pollution and its impact on the environment and, where relevant, to quantify a project's greenhouse gas emissions.

Expanded social review:

encompasses all vulnerable groups and related social issues, while putting special attention on the complexity of involuntary resettlement, Indigenous Peoples and cultural heritage.

Increased community engagement:

requires early community participation in developing a project and ongoing engagement throughout a project's lifecycle.

New comprehensive approach to biodiversity:

expands its focus beyond preservation of natural habitats to a broader view of protection and conservation of biodiversity.

NEW DISCLOSURE POLICY

The IFC also established a new Disclosure Policy that defines the IFC's obligations to disclose information, including environmental and social assessment information. The Performance Standards include public disclosure requirements for project proponents as well.

Disclosure documents will include a summary of the IFC's environmental and social review as well as information on expected development impacts in the public *Summary of Proposed Investment* for each investment project. Proponents will be required to conduct ongoing disclosure to address implementation of the project's action plan and issues raised by affected communities, particularly those related to health and the environment.

IMPACT ON PROJECT INVESTORS AND EXPORTERS

Most major commercial banks, who are also signatories to the Equator Principles' voluntary guidelines for managing environmental issues related to project financing, have indicated that they intend to implement the IFC's new performance standards as of July 2006. Information about the Equator Principles can be obtained at **www.equator-principles.com**.

Within the Export Credits Group of the Organisation for Economic Cooperation and Development (OECD), a formal review of the *Common Approaches on Environment* agreement is currently underway. The 32 export credit agencies that are members of this group are discussing the prospect of incorporating these new standards into their environmental agreement.

IMPACT ON EDC'S ENVIRONMENTAL REQUIREMENTS

The new IFC standards demonstrate an evolution in internationally accepted practice. EDC's Environmental Review Directive (ERD) requires it to benchmark projects against international standards and, as international standards evolve, so will EDC's environmental review requirements. This will impact Canadian companies who seek EDC support for projects, particularly in emerging markets.

EDC's review of the new IFC standards is taking place in conjunction with its participation in discussions at the OECD. Following the outcome of these discussions, EDC will determine how best to incorporate the new standards into its review of projects where EDC is considering project financing.

Greg Radford is EDC's Chief Environmental Advisor. gradford@edc.ca.

FOR MORE INFORMATION

The new IFC Performance Standards can be found at www.ifc.org/policyreview. The IFC offers three reference documents that provide additional guidance on the new standards.

- **Guidance Notes:** provide guidance to proponents in fulfilling their roles and responsibilities under the standards.
- **Environmental and Social Review Procedure:** gives direction to IFC staff in implementing the Sustainability Policy and reviewing compliance and implementation by private-sector projects.
- **Environment, Health & Safety Guidelines:** offer technical guidance for those parts of the new policy structure related to environmental, health and safety issues.

EDC's Environmental Advisory Services (EAS) team can also help Canadian companies determine what action they may need to take in light of the new IFC standards. The EAS team supports EDC and its customers in a wide range of areas including conducting environmental reviews, performing risk assessments and identifying appropriate mitigation measures related to transactions for which EDC may extend insurance or financial coverage. **eas@edc.ca**.

Navigating comp

Understanding the nuances of China

BY DALE MORRIS

We all know that the People's Republic of China is the most populous country on earth, with an economy that is growing at lightning speed.

What you might not know, is that with a GDP estimated at $8.859 trillion in 2005 (at a real growth rate of 9.9%)[1], China's economy is already the second-largest in the world in terms of purchasing power parity. By 2041, experts believe it will rank number one.

This is both compelling and sobering for Canadian companies. The business opportunity presented by China is clear, but it must be acted on swiftly and decisively. The reality is that Canada has been slow to engage the Chinese market in a significant way. As Canadian companies consider their Chinese business strategies, experts offer the following advice: pay close attention to regional realities and dynamics, and access support from partners like EDC.

The hardest thing for entrepreneurs, exporters and policy makers to accept about China may also be the most important: that trying to understand the market - there are no simple answers.

"This is a country with 658 cities and 1,678 counties," says Edward Leman, owner and President of Chreod Ltd., an independent consulting firm that since 1988 has provided market research, investment risk analysis, development planning, public policy and information management services to corporations, governments and international financial institutions active in China.

"China is a country where changes occur at widely varying rates from place to place. The differences impact business decisions. The complexities must be understood. There is no use in making sweeping general observations about the entire country, or in lumping together vast regions because of geography."

Chreod's 2005 report, *Emerging Trends in China: Implications and Opportunities for Canadian Business*, covers issues such as

Photo: © Justin Guariglia/Corbis

production patterns, energy consumption and environmental concerns, trade, investment, urbanization and the rise of the middle class[2].

Leman explains that in analyzing the economic picture of China, Chreod has identified no fewer than 28 distinct regional markets based on population distribution, purchasing power and traffic flows. The firm has singled out the 53 most dynamic metropolitan centres of possible interest to Canadian companies. (By comparison, North America has roughly 20 major metropolitan centres.)

"With so many regional and local markets and so much diversity," says Leman, "the fact is that no matter what your company does, you will find a market somewhere in China for your product or service. It may be huge, it may be nascent, but it will be there."

Those opportunities are likely to multiply over the coming years as major infrastructure projects are completed, vastly improving the interconnectedness of China's cities and towns. The controversial Three Gorges Dam currently being completed on the Yangtze River, the biggest dam in history, will permit 10,000-tonne ships to penetrate deep inland, extending China's shipping capabilities. A National Trunk Highway System due for completion in 2010 will link major centres and connect to secondary cities. Its social and economic impact will be greater than that of the U.S. interstate system or the Trans-Canada Highway.

OF RISK AND REWARD

With access to opportunities increasing, the challenge for Canadian companies is to determine if those opportunities are worth the investment of time and money. In China, gathering the information to make that decision is not always easy. Economics, socio-demographics, trends and the relationship of the target market location to others, must be considered. Leman says the decision to export or manufacture in China requires complex but definitive cost analyses.

So where can you get information? Leman believes this is where the Canadian government, specifically the Department of Foreign Affairs and International Trade (DFAIT), can play an important role: in gathering dependable market intelligence and providing reliable regional information.

"It is hard for foreign companies to deal with local governments in China," Leman notes. " Before they can do business, companies must know what kind of credit risk these local governments represent. This is where DFAIT, EDC and other organizations can help. To do so, they have to make sure their own strategies are tied directly to real, accurate market intelligence."

Germany, Australia and the United States are ahead of Canada in establishing market share in China, despite the fact that Canada has long recognized the opportunity that exists.

"There are many reasons for this," Leman explains. "Comfort is a big one. It is easier to export to Rochester, or to Mexico, than to a city on the other side of the globe whose name you can't pronounce. But China has changed global trading patterns, and Canadian companies need to mount a response. Because very soon Chinese companies will be doing the same things our companies do better and more cheaply than we do it, and the door will be closed to us for good."

For their parts, EDC and DFAIT are determined to keep that door open. In 2005, for example, the Trade Commissioner Service (TCS) worked on behalf of 1,100 companies in China, all of which had local presence. TCS also supported 2,000 companies working on their first sales in China last year.

According to Scott Fraser, DFAIT Director Asia and Oceania Commercial Relations, Canada has three powerful reasons for taking an interest in China: opportunity, competition, and the country's role in the global supply chain.

"China has a growing middle class and consumer class that represents an enormous market. Economic growth generally in China also creates opportunities with respect to infrastructure development, transportation and environmental technologies, areas where Canada has proven and marketable expertise," he says.

At the same time, China is a fierce competitor for the attention and dollars of markets important to Canada such as the United States, Fraser says, and an attractor of foreign direct investment that might otherwise be directed to Canada.

China's position in the supply chain is also critical, he says. "Canadian companies can benefit by leveraging China's dual role in global supply chains – as a manufacturing centre for supply chains originating in Japan and Korea for example, and as a downstream participant in chains where outsourced manufacturing is occurring in other Southeast Asian countries."

For example, a Canadian microchip company might license its design to a Japanese electronics firm. The company could then go to Taipei for a fabricator to make the chipsets. The finished chips are shipped to an assembly plant in China where the Japanese company integrates them into products for sale in Europe or the U.S.

[1] Source: CIA Worldfact Book 2006
The report is available online through the Canadian Embassy in Bei[illegible]


Photo: © Michael S. Yamashita/CORBIS

▲ China's growing consumer class represents an enormous market and is creating opportunities in areas where Canada has proven expertise.

There are many factors influencing the trade in goods, adds Ken Lewis, Minister (Commercial) for the Canadian Embassy in China. "Canada, like all traditional industrial suppliers, has seen its market share cut by the tremendous boom in inter-regional Asian trade." But some of the biggest Canadian success stories, he adds are happening in the services trade. Currently there are 31 Canadian architectural firms resident in China, as well as successful joint ventures with life insurance companies.

INVESTING IN CHINA

To do business in China, some Canadian companies are making investments there. Those investments must be strategic to avoid jeopardizing companies' Canadian operations or undercutting themselves. The auto parts sector provides a clear example. Auto parts manufacturing is a just-in-time endeavour. Companies feeding into the automotive sector through Chinese assembly or manufacturing plants must have presence in China; they need to invest there. At the same time, it is in their interest to maintain lucrative R&D and high-end engineering operations here at home. A strategic balance must be struck.

The context of foreign direct investment in China is changing, observes EDC's Marvin Hough, EDC's Regional Vice-President, Asia. "The costs of doing business are going up – fast, in some places. With economic growth and rising standards of living, wages will rise and competition for high calibre employees will increase. The cost benefit of going offshore to China may level out somewhat. Despite its large population, the country faces an increasing shortage of skilled workers in high-growth regions. As such, companies that invest in training run the risk of losing workers to competitors. All of this impacts the competitiveness of some regions of China in relation to other Asian markets"

ESTABLISHING A STRATEGY

DFAIT is developing an all-of-Canada commerce strategy for China that identifies and prioritizes economic sectors of interest to Canadian companies in China. "Our colleagues at DFAIT are coordinating activities and consulting with EDC, with other federal government departments, with the provinces and with industry via trade associations," Hough says.

The strategy is not just about trade, but also deals with investment and with science and technology issues. It looks at the priorities of the Chinese government and how Canadian interests might dovetail with those.

For example, issues of uneven development are evident in China – disparities between regions and between urban and rural areas within regions are politically sensitive. The urban centres are highly prosperous, experiencing growth at rates much faster than the rural areas. Even in the wealthiest cities, the gap between the rich and poor is widening.

The central government, trying to avoid a displaced-persons problem and the social instability it would cause, is focusing on rebalancing development in China. Growth is still the top priority, but a lot of the leadership's attention and rhetoric has shifted to helping those who have not yet benefited from the country's economic growth.

CRACKING THE MARKET: RICHMOND HILL'S AECOMETRIC CORPORATION


Photo: courtesy of Aecometric Corporation

▲ An Acid Gas Burner custom built for Siinopec's Hubei Fertilizer Plant.

Canada's Aecometric Corporation, based in Richmond Hill, Ontario, has made great strides in China. The privately owned company, founded in 1978, specializes in the design and supply of industrial combustion equipment for base industries such as petro-chemical, steel, pulp and paper, mineral processing, and cement.

Aecometric became directly active in China in 2001 shortly after 9/11, when the international contracts of the large U.S. engineering firms Aecometric was supplying became frozen.

"These blue chip companies had been taking us to places such as Indonesia, Mexico, China. We had installations in over 40 countries without having to take on the risks associated with selling directly into those markets," says Jill Anderson, Aecometric owner and president. "9/11 changed things. Everything came to a halt. To recover, we thought, 'We can go out there. Yes, it's cold calling, but we have experience and installations to point to.'"

One of Anderson's drafting engineers – a native of Beiijing – volunteered to tackle the Chinese market, using Aecometric's renowned sulphur recov-

Photo: © George Steinmetz/Corbis

▲ China's position within the global supply chain is critical. (Pictured here: Chip manufacturing factory for Motorola cell phones.)

The Chinese government's most recent five-year plan diverts spending away from the cities to the rural areas, says EDC Senior Economist Richard Schuster. "The coastal regions of the country saw the first wave of growth. Now there's a shift to the interior. This will allow the government to redistribute wealth, address job shortages, stabilize wage rates in the east, and build up the infrastructure further inland as it extends the supply routes. But as the shift inland occurs, you'll see services and slightly higher-end manufacturing move into the coastal regions."

This is part of what is driving the need for infrastructure projects. The new areas must be connected and serviced, and Canadian companies with infrastructure expertise have an opportunity to sell their products and services in support of those efforts.

A TOP PRIORITY

"China is one of EDC's top three markets for business development," says EDC's Winston Kan, EDC Chief Representative for Greater China. Kan works alongside trade commissioners at the Beijing embassy. "While transparency is still a problem in some jurisdictions, we continue to work with Chinese and foreign banks when supporting transactions to mitigate risk."

EDC accounts receivable insurance, contract insurance and bonding, and medium and long-term financing are helping Canadians mitigate those risks, access working capital and compete in sectors such as forestry, energy, telecom, advanced technology, and environmental applications.

"We appreciate that penetrating the Chinese market requires significant upfront time and money to develop the right relationships and negotiate transactions. The risks, including a lack of transparency and an underdeveloped legal system, may be too great for some exporters to bear. But EDC is here to support Canadian companies in taking on the risk, as a key support in the process," Kan says.

"We are committed to increasing our support for Canadian investment in China where there is a clear Canadian benefit, not only by facilitating new Canadian investments but in helping Canadian companies grow once they are established there," Hough says. "Our partnership with Sinosure, China's export and credit insurance corporation is key in that regard by helping extend credit insurance and working capital solutions to the affiliates of Canadian companies operating in China. Later this

ery equipment as his calling card. He started from Beijing, worked his way into the smaller provinces along the coast building relationships with the privately owned plants and refineries, and within eight months secured his first small contract.

Small successful contracts led to other, bigger ones and business continued to build. "That's very much the Chinese way: you're as good as your last job," Anderson says. Aecometric has worked hard to be responsive to customers and not only provide the quality they expect but add value, she says.

"We do the little things. Make sure we provide extra nuts and bolts because there's not necessarily a Canadian Tire down the street. Add cosmetic touches – make sure the package looks good."

That approach is paying off. By October 2005 year-end, the company had earned annual revenues of $8 million, up from $1.7 million two years prior. One quarter of that income came from Chinese contracts. And the business experience has been positive: "We have found Chinese customers easy to work with. They've treated us like the experts," Anderson says.

Aecometric established anoffice in Beijing in 2005 with a service person and secretary. "The expertise is here in Canada, but with a presence there, our representative can visit a customer's plant, take photos if there's an equipment issue, then feed it back to us so we can address the concern," Anderson says.

The company is currently preparing to open a plant in Luoyang, located directly inland from Shanghai along a north-south rail line. "The area used to be a big industrial area, so there's an established, experienced labour base and plants to choose from."

While Aecometric will continue to construct its sulfur recovery units in Canada, it will manufacture other equipment at the new plant. This will allow the company to serve engineering firms located in China with a mandate to build in China.

FINANCIAL SUPPORT FROM EDC

"EDC has been great. To get to where we are today would have taken a lot longer without their support," Anderson says. Aecometric first became involved with EDC 12 years ago, with warranty bond insurance. "I'd been waiting three years to get a 10-per cent hold back for a particular project. It wasn't payable until 36 months from shipment. EDC put the hold back in the form of a bond so I could get my money. They did that for three contracts, each with hold backs of about $50,000. It doesn't seem like a lot now, but it kept us alive," Anderson says.

Since then, Aecometric has signed on for additional warranty bonds, and taken advantage of EDC bid bonds and performance bonds. Its first performance bond was for a contract worth $1 million – its largest ever at the time. EDC guaranteed progress payments, allowing Aecometric to take on the risk.

"We brought the project in ahead of schedule and under budget," Anderson says. "We are now using EDC's pre-shipment financing, which has allowed us to take on ever larger projects. We also insure all our offshore contracts (other than U.S. deals) through EDC, which guarantees peace of mind in a turbulent world."

The company is now establishing relationships with Chinese banks with a view to setting up a line of credit there.

year, we will expand our representation in China, adding a new representative in Shanghai to complement our existing representation in Beijing."

PRUDENCE PAYS OFF

"Canadian companies can source components from China and buy goods into their supply chains. They can invest in a plant in China and manufacture products there to ship back to the domestic Canadian market, or shift their production facility there to sell into the Chinese market. Or they can export," says Kan.

To access public and private sector opportunities, Kan recommends Canadian companies visit the country, take advantage of the Trade Commissioner Service, the Chinese embassy in Ottawa, the consulates in Toronto, Calgary and Vancouver, and EDC financing and insurance services. He advises networking with Canadian and Chinese companies through business associations such as the Canada China Business Council (CCBC) and the Hong Kong Canada Business Association (HKCBA), the Association of Chinese Canadian Entrepreneurs (ACCE) and the China Council for Promotion of Investment and Trade (CCPIT).

"Trade commissioners can help identify a niche, and adapt a product to meet the needs of the Chinese market. Business-association members can share valuable on-the-ground experience," Kan says and platforms such as, **www.chinabiz.com** and **www.alibaba.com**, websites where bids and tenders are announced by private companies and government departments in China, are other avenues.

Prudence is the million-dollar word, he says. "Know who has the power of approval, who the relevant authorities are, then stick to the book. Regulations vary sector by sector, and region by region. It's very complex. There has been much legal reform since China joined the World Trade Organization in 2001, but there is still variability in interpretation and enforcement.

Know the conventions. Consult with a lawyer whenever structuring a deal to understand labeling and safety requirements, for example, and import restrictions."

He cautions against being "dazzled" by the size of the market. "Size doesn't immediately translate into success. It's a demanding market. You have to do your homework. There's overcompetition in many sectors. Understand property rights, choose the right partner, establish the right contract."

SOCIAL RESPONSIBILITY ISSUES

The Government of Canada expects Canadian firms to uphold local and international laws and standards as well as Canadian values and international commitments. Specifically, they are expected to observe to observe the OECD Guidelines for Multinational Enterprises, which provide a framework of standards and principles for responsible business conduct.

Corruption: An OECD report notes that corruption has been openly recognized by the Chinese government as a challenge to economic and social reform, and the government has introduced sanctions to curb its occurrence, including the dismissal and prosecution of corrupt local officials. Corruption risks in China are mostly related to bribery of local officials in exchange for decisions on contracts or the provision of necessary services. Canadian companies should take note of Canada's *Corruption of Foreign Public Officials Act* that makes it a crime in Canada to engage in corrupt practices in foreign countries. EDC's anti-corruption policy guidelines (www.edc.ca/csr) outline the measures EDC takes to ensure it does not knowingly provide support in a transaction involving corruption.

RIDING THE WAVE: CANDOCK INC. SAILS INTO MACAU

Photo: courtesy of CanDOCK Inc.

The 2005 Asian Games in Macau used a custom-made CanDOCK modular system for all rowing, kayaking and dragon boat events.

CanDOCK Inc. of Deauville, Québec landed its first Chinese contract in 2005 when its modular, plastic floating dock system attracted the interest of East Asian Games organizers. The company installed an custom-made departure dock for the 2005 Games in Macau, held last fall. It was used for all rowing, kayaking and dragon boat events.

"They chose our dock system because it is modular, less expensive than bigger marina systems, lifetime warrantied, it requires no maintenance, and most importantly, it's customizable," says Eric La Violette, CanDOCK Development Agent. "No other companies could offer the customization around the plank system. It was a big plus."

La Violette says CanDOCK's dealings with its Chinese customers were relatively easy. "They want good service, a fair price and responsive support. If you can provide those things, you have a happy customer."

In breaking into the Chinese market, CanDOCK has accessed support both from EDC and from Canadian trade commissioners. "I don't think people take enough advantage of those opportunities. And yet Canadian companies have much less support than companies from other countries. France has 10 times the number of commercial delegates and French companies have a lot more contracts as a result," La Violette says.

CanDOCK is preparing to bid on a number of projects in China, including the 2008 Summer Olympics in Beijing.

"In China, our product is the type that requires big projects," La Violette says. "In North America we have a lot of customers with private docks at their residences. In China, very few people have private houses by the sea; the market is restrictive in that sense. So the sales process is an ongoing one: we attend the boat shows, keep in contact with the local developers, and we belong to the Chamber of Commerce in Macau. The Macau Games were important because they gave us visibility and our product was well-liked. Now we're building on that."

Edward Leman adds that bribery is not a major issue for Canadians, as exporters working in most sectors in China win business on superior price and quality. He notes that bribery is unlikely to impact investment opportunities in China. "Manufacturers seeking to establish operations in China are often in the driver's seat as local governments try to entice inward investment through a host of concessions."

Governance: The OECD report notes that China has, to some extent, brought its corporate governance codes for listed companies in line with international practices. The OECD also notes that governance issues remain a concern with regard to state-owned agencies where ownership structures may be unclear and reflect influences from a number of ministries and administrative bodies at different levels. Reforms are in progress, but there are instances where boards of directors and other governance structures may not exist or function as Canadians might expect.

Human Rights: Significant human rights issues in China relate to labour conditions, as disparities between rich and poor and urban and rural populations grow. According to official figures, there were seventy-four thousand protests in China in 2004 involving 3.5 million people. This number rose in 2005 with protests from various groups, including workers, farmers and those forcibly evicted from their property. State figures indicate that 16 million industrial and other enterprises are "toxic" and 200 million labourers suffer from 115 different diseases.

Environment: China's economic growth has brought environmental liabilities and damage to the natural resource base. Problems include air pollution, land degradation, deteriorating water quality and water scarcity, and declining natural forest cover, which have the potential to undermine the sustainability of long-term growth. Opportunities exist in developing and using technologies to solve environmental challenges. Prospects include wastewater treatment, air quality abatement and environmental monitoring sectors. Canadian companies in China should be aware of new laws establishing comprehensive regulations that have begun to curb this environmental damage such as the Cleaner Production Promotion Law, Environmental Impact Assessment Law, Circular Economy Law and the Energy Conservation Law. ■

SEEING THE FOREST AND THE TREES:
SINO-FOREST GETS THE BIG PICTURE

Canadian company Sino-Forest began its Chinese forestry plantation operations in 1994 with 20,000 hectar of trees. Its plantations have since grown to approximately 345,000 hectares, and the company now the leading foreign-owned commercial forestry operator in China.

ExportWise: How has the business environment changed in China since 1994?
SinoForest: China has undergone dramatic changes over the past few decades, from poor infrastructure, backward telecommunications, and inconsistent and opaque rules and regulations, to better infrastructure, more highways and reliable communications networks in most major and secondary cities. It is slowly transforming its laws and rules to abide by international standards. The country is evolving with economic liberalization.

▲ Sino-Forest's nursery in Gaoyao, Guangdong Province; fast-growing eucalyptus species.

ExportWise: How have your business strategies changed as a result?
SinoForest: When we started doing business in China, it was common for foreign companies to establish joint ventures with local entities who would deal with government officials. Our partners provided us with land access and we delivered the necessary forestry-management expertise and capital. Our share of the timber was 70 per cent; the other 30 per cent went to our partners. As the wood deficit in China worsened and industry regulations improved, we adopted a different model, acquiring young trees and an option to rent the land for 30 to 50 years – and own 100 per cent of the timber. Our aim is to develop a sustainable annual wood flow that will more than double the current output of roughly eight million cubic meters over the next three to five years.

ExportWise: Where in China are you active? Do you have to adjust to regional differences in the political and legislative environments?
SinoForest: We have plantations in five provinces: Guangdong, Guangxi, Fujian, Jiangxi and Heilongjiang. In such a big country, there are varying political and legislative rules and regulations. To be successful, you must understand how these different rules and regulations apply to your business and industry. The provinces and regions of China are competing hard for foreign direct investment, offering various economic terms, tariffs and incentives depending on how developed they are, their location, the benefits foreign investors can bring to improve the condition and status of the local economy and community.

ExportWise: What kind of impact do government plans have on your business strategies?
SinoForest: Our industry is largely controlled by central government policies implemented by local authorities. For us, it is important to monitor government rules and regulations, to develop sound business relationships with local governments, forestry bureaus and communities, and to employ local workers. Earlier this year, the central government in China set out its 11th five-year plan, which focused on addressing rural poverty. By speeding up regional economic development in small towns and inner cities, employment and local livelihoods will be enhanced. We make sure our business strategy aligns with these priorities. By expanding and diversifying our plantations to inner and northern regions, for example, we're able to lock in a long-term wood fibre supply and also support employment and local economies.

ExportWise: How has EDC been of help to you?
SinoForest: We completed a syndicated loan facility of USD 150 million early this year. EDC was one of the five mandated lead arrangers. The new facility provides us with additional funding to expand our plantation resource base in other parts of China. The funding also provided an opportunity to strengthen our relationships with other banks.

ExportWise: What advice would you give to Canadian exporters sizing up the Chinese market?
SinoForest: Based on our experience, we believe Canadian exporters must do a number of things to succeed in China. First, they must understand thoroughly the domestic markets, the culture, language and mentality, and the manner in which business is done here. They have to identify their competitors and clearly understand their own position in the marketplace. Can their products compete on grounds of quality, cost, etc.? They have to do the research and identify the appropriate geographical markets for their offerings, and take time to establish a distribution network of good and trustworthy partners. Brand building is also important, as is understanding local rules and regulations, tariffs, incentives and tax schemes. Finally, it's important to seek good domestic professional legal and accounting advice.

Regional Representatives

Q&A

In each edition, *ExportWise* touches base with two of EDC's representatives responsible for strategically important markets to learn firsthand about the opportunities they see.

Photo: Martin Lipman

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Claudio Escobar joined EDC in 1997, tasked with deepening the Corporation's market knowledge of South America and uncovering fresh trade and investment opportunities for Canada. Today, he is EDC's Chief Representative and Director for Brazil and the Southern Cone countries. As Rob Forbes, Vice President, International Business Development notes, "Claudio's 31 years in the fields of international trade and business development in the Americas has given him unparalleled awareness of the region and its markets. He brings his extensive background in trade policy, business negotiation, marketing and strategic planning to every transaction and deal."

What do you feel you bring to your role in promoting Canadian business in South America?

I bring a great deal of international business development experience, gained during 22 years of work within the private sector, where I have been focused on expanding Latin American sales and developing new market opportunities in the Americas. During the past nine years at EDC, I have developed a solid network of contacts with the private and public sector. In addition, my Latin and Canadian background combined give me a concrete understanding of the market strategies and effective approaches to building relationships and finding opportunities for Canadian exporters.

You've been in Brazil since 2000. How has the market evolved since that time?

It has been said that Brazil is the land of opportunity and always will be – meaning it has fallen short in realizing its rich promise and potential. But that's no longer the case. Since Brazil started opening itself to international trade 12 years ago, it has restructured a once domestically oriented manufacturing sector, turning itself into a significant exporter of finished goods as well as a major source of primary commodities. Now it has its sights set on becoming a major exporter and a global player in international trade.

What kind of steps have you taken to adjust to a changing Brazil?

When I arrived in 2000, EDC was faced with a steep learning curve on how to effectively do business in Brazil and how best to assist our clients. We needed to understand the gap between EDC offerings and Canadian foreign company requirements: assess the business and political environment and align with the opportunities and strategies of Canadian companies. Now, in 2006, we are more proactive, tailoring our advice and financial services to the specific needs of the market and our clients. EDC now also plays a greater role as an intermediary in bringing

BRAZIL PROFILE

Nominal GDP (2005): USD 822 billion

Population (2005): 181 million

Currency: Brazilian real

Exchange regime: Independently floating

Largest Merchandise Trading Partners: United States, Argentina

Merchandise imports from Canada (2005): 1 billion

Main imports from Canada: Chemicals, newsprint, transportation equipment, plastics and packaging

together interested Canadian and Brazilian parties. We constantly work with the Canadian Trade Commissioners to provide the financial elements to a successful commercial package.

Canada-Brazil trade issues have evolved beyond the selling of basic commodities and now both sides trade significantly in industrial machinery, telecommunications and the development of resources such as mining and oil and gas. EDC's strategies have had to adjust as well, and we now advise Canadian exporters on how to use local mass manufacturing and incorporate technology transfers to enhance their competitiveness.

Are there particular characteristics of Latin America that differentiate it from other markets?

In Latin America you become friends first – then you do business. There has to be a social element to developing a business relationship to allow potential partners to assess commitment and establish trust. It's also important to recognize that there are significant inter-regional differences that require customized approaches to business deals. Chile is a sophisticated trading nation in the model of North America, so quick decision-making is necessary to capture opportunities. Argentina is now growing rapidly after its economic crisis but there is still a high level of nervousness about any deal involving public – private cooperation. Brazil has its own huge domestic market so Canadian companies are expected to partner with Brazilian players in order to develop domestic manufacturing capacity.

What do you see on the business horizon?

Change is the only constant. EDC and Canadian companies must remain flexible to meet the demands of the region. Our challenge is to stay relevant and visible.

Photo: Martin Lipman

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EDC's Regional Manager in Rio de Janeiro is Fernanda de A. Custodio, a Brazilian citizen appointed in 2003. Fernanda brings a wealth of business experience to her position, including extensive work with Brazil's largest mining company and a stint with the British Consulate assisting U.K. companies in breaking into the Brazilian market. With an MBA in Marketing, a Masters in Production Engineering and an undergraduate degree in Electrical Engineering, these professional qualifications allow her to provide Canadian exporters and investors with detailed and insightful analysis of market opportunities in Brazil.

What is your assessment of Canada's market strategy in Brazil?

One of my first challenges upon joining EDC was to inform myself about Canadian companies, Canadian capability and Canadian corporate strategy. As someone knowledgeable about Brazil's mining sector and regulatory regime, I think Canada's market strategy has, in general, lagged behind advances in Brazil's political and economic situation.

In light of that gap, how do you see yourself adding value to the market strategies of Canadian firms?

My job is to bring Canadian companies up to speed on the Brazilian market, persuade them to look south for new opportunities and provide them with a decisive edge in cracking the market. I advise Canadian companies on how to navigate transactions in Brazil. I highlight the legal requirements, point to the appropriate people and provide culturally sensitive insight into business norms and standards. Most importantly, as the EDC representative in Brazil, I help facilitate the financial resources and services that Canadian companies need to finalize the deal.

What is the Brazilian perception of Canadian expertise?

Brazilians see Canadians as nice and friendly, and while they see Canada as a world leader in certain fields, they lack substantive knowledge of Canadian companies, partly because Canadian companies have been hesitant to pursue opportunities in Brazil. Along with my trade commissioner colleagues, I attend many trade shows and market symposiums to promote Canadian expertise to a Brazilian market that wants the most advanced and environmentally sensitive technology to develop its vast resources.

Do Brazil's requirements and Canada's export strengths complement each other?

Brazil is increasingly confident and ambitious, but it still experiences gaps in technology, which means it looks for assistance from countries it sees as leaders in certain fields. Canada is known for advanced automotive skills, mining and engineering and forestry expertise, as well as capabilities in environmental management services, power generation and infrastructure development. Focusing on these sectors and exploiting the opportunities in supply chains is my strategy for promoting Canadian trade with Brazil.

Any advice for Canadian companies who are looking to South America but are unsure of market prospects?

Be more aggressive and adventurous in promoting your business assets. The Brazilian private sector has made great strides in shedding government control and has become very sophisticated and experienced in international trade. It sees itself as a regional hub for Latin America and as one of the rising global competitors, along with China and India. Tap into that ambition by bringing the knowledge and technology that Brazilian partners lack, but need to enhance their competitiveness. Canada has a lot to offer in helping Brazil realize the future of which it has long dreamed. ■

Focus on the United States, Part III

Canada's Consulate General in Los Angeles

California Dreaming

BY DENNIS AND SANDI JONES

Photo: © Jay Freis/Getty Images

Ever since the days of the 1849 Gold Rush, California's sun-drenched landscapes have held out a glittering promise of a better life for Americans and non-Americans alike. Among the multitudes who have gravitated here have been the entrepreneurs, innovators and business visionaries who built the state's sterling reputation for excellence in science, technology, business and the arts. As a result, California's economy is now the seventh largest in the world and accounts for about 12 per cent of the U.S. economy, with its major strengths lying in entertainment, science, technology, and finance.

CANADIAN CONNECTIONS

According to Jim Feir, the Consulate's Deputy Consul General and Senior Trade Commissioner, Canada and Canadians have contributed significantly to this vibrant economic life. He estimates that as many as 600,000 Canadians are residents of Southern California, most of them fully engaged in their primary careers.

"Partly because of this," adds Feir, "Canada's economic relationship with Southern California is very strong. Canadians and Canadian businesses are extremely active in the media and entertainment sector here. Then there's science and technology, with numerous Canadian institutions connecting to California innovation centres such as UCLA, USC and Caltech. These activities have established very strong links between California and Canada."

Southern California can also provide huge pools of investment and venture capital, and investors here have traditionally been aggressive in seeking out opportunities. The Consulate trade team consequently includes a position that's fully dedicated to investment development.

GOING CONCERNS

The Consulate trade team identifies several sectors as holding promise for Canadian exporters. In the immediate Los Angeles region, aerospace and defence are priorities, and there's an equally promising defence and security cluster in San Diego. The area is a hotbed for innovation in information and communications technology, and the entertainment industry has a keen appetite for software technology

and media applications. Biopharmaceuticals and medical devices present enormous opportunities; more than 1,000 companies and institutions work in the life sciences, and there are at least 700 businesses in the medical devices subsector. Being home to Hollywood, the territory is an important cultural market, and the arts and entertainment sector is a priority for Canadian businesses.

There's also a boom in residential construction. About 450,000 new homes will be needed each year for the next 10 years, causing a big demand for building materials and upscale home furnishings. Specialty foods and beverages are in increasing demand from an affluent and cosmopolitan population, including a vast and rapidly growing Hispanic community, and a very strong interest in what the Canadian agri-food sector can offer.

THE SHAPE OF THINGS TO COME

California is a leader in several emerging technology sectors, and many of these mesh well with Canadian capabilities. The alternative/renewable energy sector is a potentially huge market in which Canadian expertise in hydrogen technology, fuel cells, and other new energy sources can give our exporters an edge. The widespread urbanization of Southern California has also created many challenges for water treatment, hazardous waste management and air quality; Canadian environmental products, engineering services and remediation technology may therefore find willing customers in these subsectors.

Transit is another opportunity, including major components such as rail cars and the infrastructure systems that support urban transportation networks. Finally, there are great possibilities for collaboration in R&D and investment; one example is the Canada-California Strategic Innovation Partnership Initiative, which is helping to develop better ways to transfer technology to the marketplace.

ONE STATE, TWO CONSULATES

Canada's presence in San Francisco, a satellite of the Los Angeles Consulate General in 2005, recently became a full Consulate General with responsibility for Northern California, Hawaii and most of Nevada (except Las Vegas). Only in California does Canada maintain two full Consulates General (as well as a Consulate in San Diego which reports to Los Angeles). The need to do so is an indication of the enormous size of this market. The five-county region surrounding Los Angeles contains 17 million people, and this small area has a GDP of about USD 410 billion, which makes these five counties the 18th largest economy in the world, right after the Netherlands.

EDC AND CALIFORNIA

The total value of all Canadian merchandise exports to the United States in 2005 was $343 billion, of which California's share was $24.9 billion. In California, EDC's programs approved more than $1.16 billion in buyer credit limits to 5,203 buyers.

PROMOTING CANADA

The Consulate is very active in promoting Canadian exporters in the region it serves. It works regularly with the Los Angeles Region Technology Association (LARTA), to open doors for Canadian high-technology companies; in fact, LARTA organizers featured Canada at one of their events in late 2005, the first time this has been done for any country. The Orange County Technology Action Network (OCTANe), which focuses on the medical devices sector, is another group with which the Consulate works; in conjunction with OCTANe, Industry Canada and several Canadian medical device companies, the Consulate recently sent a mission to a major industry conference in Anaheim.

The Consulate also maintains links to a range of organizations such as Chambers of Commerce and the economic development organizations set up by various Southern California business clusters. This allows the trade team to establish connections that can help Canadian exporters enter the market. Numbers tell the story: During 2005, 547 Canadian companies used the team's services, through tools such as the Virtual Trade Commissioner, for contact searches and briefings on business opportunities in the territory, while hundreds more benefited from the Consulate's services by visiting the territory as part of business delegations or as attendees at major industry events.

"Oddly, though," says Feir, "even with more than 500 requests last year, we don't receive that many unsolicited trade inquiries from Canadian companies despite the region's market potential – we often have to introduce Canadian firms to the opportunities available. That's one of our challenges: to get the message out that there are major opportunities in the region. We'd like Canadian exporters to be aware of the value we can offer them, and it's certainly worth their while to contact us."

PANNING FOR GOLD

Southern California isn't an easy market. It's very crowded, with companies from the United States and elsewhere competing for business. It's also extremely large, and careful research is needed to identify the target markets that offer the best chances of success. Finally, Canada tends to have a low business profile in the region, so when Californian business people think of international trade, they tend to think of Asia and Mexico, not Canada.

Given this, how should a Canadian exporter prepare for the California market? "The large Canadian presence here can help you get a toe in the door," says Feir, "but it's far from a guarantee of success. Like anywhere, you have to offer the best products and technologies at the best price. Even that isn't enough in California, though; if you decide to come here, be prepared to act fast, and do your research before you arrive. If you don't, you'll be left behind. Timeliness, responsiveness and speed are the watchwords in this market."

For companies that can meet these high standards, however, there's all the promise anyone could ask. Just as it was a century and a half ago, there's gold to be found in those sunny California hills.

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Nigeria: On Track With Refo

BY PETER BRAKE

After years of wasted opportunities during which it endured corrupt military leaders and mismanagement of the country's oil revenue, Nigeria is emerging as a promising market for Canadian exporters and investors. Democratic elections in 1999 marked a turning point in Nigeria's history and the beginning of a period of hope and economic development.

"It's been a long haul, but we are seeing progress in repairing the damage of previous decades," says Klaus Büttner, EDC Regional Vice-President for Africa, Europe and the Middle East.

"When Nigeria settled its multi-billion dollar Paris Club debt, it was seen as clear evidence that Nigeria is serious about restoring confidence amongst the international investment community and committed to establishing sound economic and fiscal policies.

Nigeria has now been able to achieve a credit rating of BB- on par with countries such as Turkey and Brazil."

Peter Whelan, EDC Political Risk Analyst adds, "Recent high oil prices have underwritten Nigeria's remarkable economic achievements.

Nigeria's commitment to long-term economic reform in the face of a change in global commodity prices remains untested."

PROMISING SECTORS

Nigeria's rising international investment profile is being driven by the market's untapped potential. Nigeria has Africa's largest population and the second largest sub-Saharan economy after South Africa. It ranks 10th place in terms of its share of world oil reserves and 7th for natural gas. Its mineral deposits, largely unexploited, are nonetheless believed to be substantial and possibly worth as much, if not more than, its hydrocarbon reserves. Nigeria's re-emergent agricultural sector is also raising the prospects that the country could return to its pre-independence role as a food exporter rather than an importer. Investment bank Goldman Sachs identified Nigeria as one of the next tier of countries having the right combination of population, wealth of natural resources and development trajectory to rival major economies in the future.

Efforts towards tapping the country's potential saw the economy grow by as much as 6.5 per cent in 2005, twice as much as the average for the previous five years. As importantly, growth in non-oil sectors of the economy also accelerated, reaching 8.2 per cent in 2005. Current forecasts are for continued growth of 7.4 per cent for 2006.

Amid growing confidence, EDC signed agreements to establish USD 25 million medium-term lines of credit with two major Nigerian banks this year, First Bank Plc and Zenith Bank Plc. This undertaking makes EDC the first export credit agency to offer medium- and long-term lines of credit and propose financial tools to underwrite new business opportunities for Canadian exporters. According to Rizwan Haider, EDC Regional Manager for Sub-Saharan Africa, "This is of significant importance to Canadian exporters and investors. By positioning ourselves proactively with leading Nigerian banks, we will be in a

ms?

Photo: REUTERS/Akintunde Akinleye

strong position to generate new short- to medium-term business in an important emerging market."

ECONOMIC REFORMS CONTINUE

Olesegun Obasanjo, Nigerian President since 1999, has stepped up his aggressive pursuit of economic reform. Privatization, banking sector reform, anti-corruption campaigns and establishment of clear and transparent fiscal standards have gained momentum after an initial series of fits and starts in Obasanjo's first term. Haider notes, "The reformist agenda is still on track despite resistance by vested interests. Consolidation in the banking sector from 89 to 25 banks and enforcement of higher capitalization requirements has led to greater stability and increased consumer confidence in the financial sector. Consumers and businesses can focus on long-term strategies rather than be paralyzed by the fear of corruption and credit risks."

Whelan suggests the 2007 presidential election will be a crucial test for Nigeria. "The next election cycle represents a real chance to solidify democratic institutions. A successful transition between political leaders with a minimum of violence will be a remarkable sign of political maturity for Nigeria."

Canadians who have recently done business in Nigeria point to the advances made in recent years. Peter Kieran, President of CPCS Transcom, a Canadian company specializing in international transportation, commercialization and privatization projects, has worked with the Nigerian government on privatizing Nigeria's port and railway systems. "In our work in other countries, we often have to manage inadequate commitment, intransigent government agencies, a lack of local abilities and limited financial resources. The Nigerian government agencies we dealt with, such as the Bureau of Public Enterprises, were professional, ethical and keenly focused on moving the privatization agenda forward."

Chris Roberts, Vice-President of the Canadian Council on Africa, agrees that there has been a profound change in Nigeria's business practices. "Nigerians are aware of their country's reputation for scams and corruption. They know they must take extra steps to attract international investment and business partners. Nigerian business people are often prepared to come more than halfway to prove they can be trusted, to get a deal done."

The mining sector, in particular, is due for increased growth, says Roberts. "Previous government monopolies essentially killed the Nigerian mining sector. The new Nigerian Mining Minister, Oby Ezekwesili, is one of the many highly educated Nigerian expatriates with international experience and respect that Obasanjo has been able to attract back to the country to apply their talents in rebuilding the Nigerian economy. Known as "Madame Due Process" for her insistence on consistent rules, she has firmly articulated that the new Nigerian policy is that the government is not in the mining business."

MINING THE OPPORTUNITIES

EDC's Haider is excited about the potential revitalization of Nigerian mining and what it could mean for Canadian companies. "We know that Nigeria has large deposits of coal, copper, tin, lead, zinc and other minerals, but there are still vast areas of Nigeria that have never been properly explored. The Nigerian demand for international mining expertise and technology as well as environmental services can only increase as the Nigerian mining sector is opened to private investment. It also shouldn't be ignored that a revitalized Nigerian mining sector will increase demand for the allocation of resources to rebuild the country's infrastructure so opportunities for Canadian companies are there as well."

To date, Canada has been a minor player in Nigeria, perhaps because Canadian companies have been put off by the high-stake risks and Nigeria's reputation for violence and corruption, says Roberts. "Nigeria has the highest active return on investment in the world, more than 45 per cent. Countries like China, India, South Africa and the United States are intensely interested and active in Nigeria, eager to lock up supplies of increasingly scarce and valuable resources. With EDC's entry into Nigeria, Canadian companies now have some of the risk mitigation tools that can help them become a more active player."

As Kieran notes, "The key to investment in the Nigerian market is that you should be aware of your exposure and expose only in relation to the degree of opportunity you are looking for." Nigeria is high risk but the Nigerian market is eager to do business and intent on making it worth your while. ■

FOR MORE INFORMATION

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Canadian Trade Commissioner Service in Nigeria
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www.infoexport.gc.ca

EDC's country reports www.edc.ca: Select "Resources" then "Country Information"

Note: Foreign Affairs Canada advises against all travel to specified regions of Nigeria. For information see: Canadian Consular Affairs Bureau, Travel Reports
www.voyage.gc.ca

Photo: courtesy of CPCS Transcom

CPCS Transcom makes inroads in Nigeria

BY PEGGY O'NEILL

With patience and restraint, you can solve most problems. For CPCS Transcom, an international consultancy headquartered in Ottawa, doing business in Nigeria means investing time and accepting risk.

CPCS Transcom President Peter Kieran is also the current President of the Canadian Council on Africa, demonstrating the company's commitment to increasing trade links with Africa.

"Nigeria has many opportunities for those who are prepared to invest the time to establish themselves in the country and accept the risks of doing business in a developing market," says CPCS Transcom Senior Consultant Jeff Murphy.

"Given the size and population of the country, transportation is a key component to Nigeria's development and the government has undertaken massive reforms to encourage private sector participation in the transport sector."

Having now completed port and rail commercialization and privatization projects in 18 African countries, CPCS Transcom won its first contract in Nigeria in 2000. The firm is currently concluding the concessions of 25 port terminals in Nigeria. It has also recently embarked on the privatization of the country's national railway and the development of a rail mass transit plan for Lagos, a city of 15 million people. They have also consulted for shipping companies in Nigeria and provided support to ministerial committees on transport reform.

Murphy says the countries that his firm does business with are perceived to be higher risk by most commercial banks, but EDC support has been essential to maximizing their bank financing.

"EDC has provided CPCS Transcom with Accounts Receivable Insurance for numerous contracts in developing countries," says Murphy. "This support has helped provide us with the financial resources necessary to undertake large projects in Nigeria and elsewhere in Africa, the Middle East and Asia. It is great to see EDC and other financial institutions beginning to get comfortable with countries like Nigeria, because the potential is huge for Canadian companies."

He believes government reforms are creating opportunities across numerous sectors including transportation and mining. Both sectors represent significant opportunities for Canadian firms in particular, given that Canadian companies are world leaders in these areas. Because CPCS knows every port and every inch of rail track in the country, it sees itself positioned to advise others on optimal transportation corridors, transportation cost estimates over the life of a project, or arrange for private sector operators to build and operate spur rail lines linking mines to the rail network. Their experience also means they can give advice to companies embarking on business opportunities.

"To do business effectively in Nigeria, you must spend time there; smell the air, meet the people and develop relationships," says Murphy. "You can't expect to be successful by relying on meetings in airport lounges or communicating solely by phone or e-mail."

With so many different tribes, religions and languages, Peter Kieran adds that Canadian companies need to become familiar with the many cultural differences in Nigeria. But what about the media reports of kidnappings, scams and government corruption? Kieran says the media paint a negative picture of Nigeria, and events that occur in one region or sector (such as kidnappings of expatriate oil workers in the Niger Delta) can distort a view of the country.

"You just have to do business with reputable companies. In our experience, it's a good place to do business," says Kieran.

As in any developing country, being aware of the current political climate is as important as partnering with trusted and competent local firms who understand the social and economic climate. "You must be prepared to devote financial resources and ongoing senior management time to business development and relationship management," says Kieran. "I would also recommend patience – relationships are important in Nigeria and it takes time to develop them." ■

Company:	CPCS Transcom
Business:	Consulting firm specializing in the commercialization of infrastructure worldwide
Location:	HQ in Ottawa, offices in India, Nigeria, Thailand, Barbados, China, U.S.
Employees:	Approximately 47 worldwide
Exports:	100%
Markets:	Africa, Asia, Middle East, Caribbean, South America, Eastern Europe
Contact:	Peter Kieran, President www.cpcstrans.com Tel: (613) 237 2500

'Go East' For Fame and Fortune

▲ Team Alinghi sailing towards victory during the 2003 America's Cup.

BY BRENDA BROWN

Highly successful international companies such as Oceanic Consulting Corporation are bucking the centuries-old adage that to find fame and fortune, the adventurous must look to the west.

Instead, some companies with roots deeply embedded in east coast soil, are not only helping to keep their sons and daughters close to home but are attracting top-notch talent from around the world. They are representative of the new local heroes who are not only creating employment and prosperity in their home towns, but also thriving on the international stage winning contracts in countries as far flung as China, Australia, and Kazakhstan.

OCEANIC CONSULTING: HELPING TO WIN THE AMERICA'S CUP AND OTHER INTERNATIONAL FIRSTS

When Swiss Team Alinghi defeated Team New Zealand in a 5-0 knockout victory on March 2, 2003, winning the most prestigious yachting trophy of all time – the America's Cup – it was a bitter-sweet moment for Dr. Dan Walker. His life's dream was to skipper the winner of the America's Cup and, thanks to his position as President of Oceanic Consulting Corporation, he got as close to that dream as he is ever likely to get.

Oceanic is an ocean engineering firm based in St. John's, Newfoundland that provides commercial services in marine performance evaluation. Using world class testing facilities and industry-leading numerical computer simulation soft-

St. John's, Newfoundland has become home to one of the most comprehensive sets of marine research facilities in the world.

ware, the firm analyzes the hydrodynamic behaviour of everything from ship designs to offshore structures and other marine systems, providing clients with accurate demonstrations of real-world performance. Oceanic is the 'commercial front door' to an alliance of marine research facilities in Newfoundland which includes the National Research Council of Canada's Institute for Ocean Technology and Memorial University's Ocean Engineering Research Centre and Marine Institute.

For Team Alinghi, Oceanic evaluated more than 10 alternative hull designs and completed hundreds of different test runs over several weeks to optimize the yachts' hull for maximum speed. Oceanic was given credit by the team by their return for testing in preparation for the 2007 race. Oceanic is currently working with Alinghi, BMW-Oracle Racing and Mascalzone Latino Capitalia on model testing hull designs for the 2007 America's Cup and Louis Vuitton Challenger Series to be held in Valencia, Spain.

Walker helped form Oceanic while President of Marineering Ltd., a firm he founded in 1993 to provide contract research services while working on a Doctorate of Philosophy in Ocean Engineering at Memorial University. With a particular area of expertise in marine propulsion, he was impressed with the growing marine research community that had been maturing in St. John's since the early 1960s.

"St. John's was rapidly becoming home to one of the most comprehensive set of marine research facilities in the world and now includes everything from a 200-meter towing tank, an offshore engineering basin, a 90-metre ice/towing tank and a center for marine simulation," says Walker. "I thought we could employ all of that technology by offering consulting services to international companies in need of physical or numerical modeling."

In 1995, the National Research Council reduced its staff size and Walker realized that this was an opportunity to take his self-employment to the next level. "We convinced the provincial and federal governments that by creating an alliance, bringing together all of the expertise that was now centered in St. John's, we could build a viable consulting business."

Today, Oceanic employs 46 engineers, technologists and support personnel and has $5 million in international sales in countries as diverse and challenging as Kazakhstan, China, Russia, and the United Kingdom.

"The key to our success is how we integrate services from different research organizations with our own engineering talents to provide seamless service to our customers," Walker says. "These research facilities are owned by two levels of government, under three different organizations and four different administrative units. Our job is to work effectively at all levels and provide the physical modeling and numerical simulation that our clients need done. That's why we call ourselves the 'commercial front door' to these facilities."

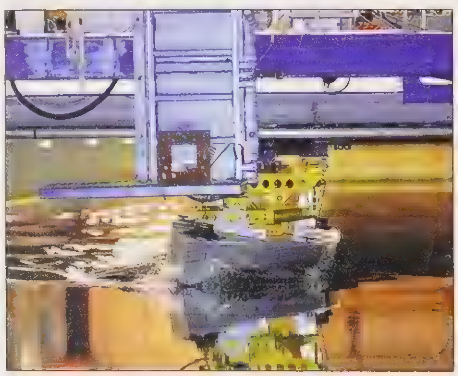

Photo: courtesy of Oceanic Consulting Corporation

▲ Oceanic focuses on building their knowledge base and niche capabilities to ensure they stay relevant.

To Walker's mind, the biggest competitive threat facing Canada is China, which is rapidly building on its already impressive ship building industry and research capabilities. "To counter this threat, we're focusing on building our knowledge base and niche capabilities in areas such as artic and shallow water offshore engineering to ensure that we stay relevant."

And if you ask Walker what is the one piece of advice that he would offer companies thinking of venturing internationally, that would be perseverance.

"In some cases, the sales that we are acquiring now have been five years in the making. Today's consumers won't tolerate statements such as 'better than the competition.' It takes a lot of time to build your reputation internationally and prove your company one job at a time."

Walker credits EDC with some perseverance of its own. "Over the years EDC has been keeping Oceanic aware of their services and as our international business grew, it started to make more business sense. Until recently, we were only able to margin our North American receivables at about 75 per cent through conventional sources. But with EDC's Accounts Receivable Insurance, that has jumped to 90 per cent of all receivables, which allows us to take on more business."

One final piece of advice: as they say on the east coast 'if you want to run with the big dogs, you have to get off the porch.'

Walker says he learned that the hard way the first time he went to an industry forum in Washington where he brought along some home-printed brochures which were fine for the St. John's marketplace. He threw them out when he saw those provided by his competitors. He then used a high-quality laser printer to produce brochures for the Offshore Technology Conference in Houston. Again he threw them out.

"The first thing I did when I got back home was hire a professional marketing firm to develop a brand for the company," Walker says. "I finally took the advice I tell my customers: if you want it done professionally, hire a professional. That's one lesson I've never forgotten." ■

Company:	Oceanic Consulting Corporation
Business:	Ocean engineering firm that provides commercial services in marine performance evaluation
Location:	St. John's, Newfoundland
Employees:	46
Exports:	95%
Markets:	Australia, China, Europe, North America, Kazakhstan, Russia, South America, United Kingdom
Contact:	www.oceaniccorp.com

Cooke Aquaculture: Swimming Upstream

Photo: courtesy Cooke Aquaculture

◀ Cooke's corporate pilot Jamie Ellis, who has also worked for the company as a farm site manager and a diver, holds a market size salmon on one of the company's Grand Manan farms.

BY BRENDA BROWN

For Cooke Aquaculture of Blacks Harbour, New Brunswick, success has meant not following a strong international business model which encourages companies to contract out, partner, build alliances or source goods or services from other companies to build a supply or value chain.

While experts agree that this model allows companies to focus on their core competencies, lower costs and improve efficiencies, Cooke has spent the past 20 years developing a model whereby they control the company's entire value chain; from hatcheries to feed, from processing to marketing and sales to moving both fresh and frozen products to market with its own fleet of refrigerated transport trucks.

"Our motto 'Refusing to go with the flow' sums up our philosophy," says Nell Halse, Cooke's Director of Communications. "We're a flexible, dynamic company that sets its own path and following our model has allowed us to combine the right people with the right resources to respond immediately to changes in the market."

The company's origins were humble, beginning with a single marine cage site containing 5,000 salmon. Four years later Gifford, Michael and Glenn Cooke decided they needed a consistent and independent supply of eggs and smolts, so they purchased Oak Bay Hatchery.

"This began an aggressive growth plan with acquisitions and a strategic search for development opportunities," says Halse. "That strategy is also indicative of a desire to control their own destiny."

Today, the family-owned company employs 1,200 people; sells more than 80 million pounds of Atlantic salmon each year; and has operations in New Brunswick, Prince Edward Island, Nova Scotia and Maine. It exports most of its product to the United States with a lesser amount to Japan.

One of the leading challenges the company has faced in recent years was the purchase of both Heritage Salmon and Stolt Sea Farm (which merged with Marine Harvest in 2005), their two largest competitors.

When Cooke was considering buying these companies, the east coast salmon farming community was facing serious challenges with managing fish health, market conditions, the rising Canadian dollar and two abnormally cold winters that affected fish survival, says Halse.

"We felt that buying the two companies would reaffirm our commitment to e[…] coast communities and to the industr[…]" she says.

But there was a downside: the two companies combined had lost $30 million in the previous year and there were 600 jobs at stake if Cooke wasn't successful in integrating the operations of both companies into Cooke's own, quickly and efficien[…]

"These multi-national companies [w]e[re] going to pull out of the community and we just didn't want to see that happen. Fortunately, thanks to good management, the results have been very positive so far. We've consolidated our processing plants from four to two and sought the advice of employees on how best to manage the change. Today we are focused on being a low-cost producer which provides a high quality product."

And as they say, the proof is in the pudding: this past February Cooke was named one of the 50 best-managed companies in Canada and is continuing to expand its customer base and distribution chain.

"We believe this recognition is indicative of the high quality, hard-working employees that we have at Cooke. They make the difference."

Halse says that EDC is playing a role in supporting the company's effort to expand sales to new customers throughout North America. "EDC's Accounts Receivable Insurance is helping to maximize Cooke's protection for its accounts receivable," she explains. "This valuable program spreads the cost of providing credit by providing 90 per cent coverage on qualified customers for a reasonable premium." ■

Company:	Cooke Aquaculture
Business:	Independent family-owned salmon farming company
Location:	Blacks Harbour, New Brunswick
Employees:	1,200
Exports:	70%
Markets:	United States, Japan
Contact:	www.cookeaqua.com

Stephen Poloz,
Senior Vice-President,
Corporate Affairs and
Chief Economist

Agricultural Machinery a Growing Business

Canadian producers of agricultural machinery have been diversifying into emerging markets while boosting sales in traditional markets. Expect more of this in the years ahead.

BY STEPHEN S. POLOZ

Everyone knows that farming is a tough business. The weather is always either too wet or too dry, crop prices are at historical lows and go even lower whenever farmers have a good year, and agriculture is the most protected of international markets.

But agricultural machinery producers seem to be doing well. Canada's exports of farm machinery have grown by 11% per year, on average, since 2001, and this year will surpass $1.5 billion in value. EDC's forecast is for growth of 7-8% during 2006-07.

The world economy is in a very strong position after three years of above-trend growth. Although the demand for food is generally recession-proof, strong economic growth still means more demand for food, and a shift in demand up the quality scale. Strong economic growth also means that there is more financial capacity to invest in new and improved machinery. And for those without the cash, borrowing has rarely been easier than it has been in the past 12 months. Moreover, the incentive to improve farm productivity has never been higher, what with the brutal combination of high fertilizer and fuel costs and low prices for many agricultural commodities.

But there is more to it than that. For one thing, although Canadian producers have been grappling with the consequences of a strong Canadian dollar, many of Canada's competitors in the agricultural machinery business are in Europe, where producers have had to deal with an even stronger currency in recent years. In the global agricultural machinery market Canada ranks ninth, behind Germany, the U.S., Italy, the U.K., France, Japan, Belgium and the Netherlands. Although the Canadian dollar has risen significantly against the U.S. dollar since its low of US$0.62, during 2002-04 it rose much more slowly than the euro did. This exchange rate edge over European producers proved to be temporary, as the Canadian dollar caught up to the euro during 2005. Nevertheless, even a temporary edge can be helpful when brand loyalty can play a role in future sales.

More importantly, Canadian producers have broken new ground in a number of key emerging growth markets, particularly in central and eastern Europe. Canada's exports of agricultural equipment are up dramatically in Russia, Kazakhstan and Ukraine. These are major agricultural producers, but their equipment is old and unproductive. EDC has created special credit lines to facilitate Canadian sales into these and other emerging markets. Meanwhile, Canadian equipment sales to Germany, the Netherlands and France were also up strongly in 2005, even though demand has softened in the all-important U.S. market.

EDC's Trade Opportunities Matrix (TOM) is a computer model built to sift through trade data and rank international markets for the strength of trade opportunities they present. TOM points to the U.S., the U.K., Japan, France and Spain as the top developed markets for Canadian equipment producers to pursue, and they are active in all of them. On the developing market front, TOM suggests that the top ten market opportunities are in India, Turkey, Malaysia, Russia, Argentina, Mexico, Ukraine, China, Iran and Poland. According to TOM, therefore, there are many more possibilities for Canadian agricultural equipment producers to pursue.

The bottom line? Canada's agricultural machinery exporters are tapping successfully into a solid and growing global marketplace. Their experience demonstrates well the benefits of diversification in an increasingly globalized world. ■

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

MOSCOW AND SHANGHAI TO GET EDC REPRESENTATIVES

Building on the success of its expanding network of Chief Representatives located in emerging markets, EDC will open an additional overseas representation in Moscow, with market coverage responsibility for Russia and the other member countries of the Commonwealth of Independent States (CIS). EDC will also open an additional representation in Shanghai, supplementing the work now done in Beijing, to increase EDC's ability to assist the growing number of Canadian companies pursuing business in China. Both representatives are expected to be on the job by the end of 2006. Find out how to reach our representatives at **www.edc.ca/contact**.

FINANCING SOLUTIONS FOR SMALL BUSINESS

Exporters may benefit from the Canada Small Business Financing Program (CSBF) run by Industry Canada which administers the loan loss-sharing program through a network of private sector lenders with points of service in all provinces and territories. Under the program, lenders are responsible for all credit decisions and for providing the loans (the government is not involved in assessing individual loan applications).

The CSBF covers 85 per cent of the losses due to default. During the period 2004-05, the total value of loans made by the private sector under the program was approximately $1.0 billion, and is said to have created 26,000 new jobs. The average loan size was approximately $94,000. During this period, 1,639 claims were settled with payments of $77.6 million. Select "Business Support, Financing" under the Subjects menu at **www.strategis.ic.gc.ca**.

NEWS ON EXPORT CONTROLS

The Export Controls Division of the Department of Foreign Affairs and International Trade has created an online system: Export Controls On-Line (EXCOL), to replace the current permit tracking system developed in 1988. Using EXCOL, exporters are able to submit applications for export permits and certificates, as well as request amendments on-line. **www.excol-ceed.gc.ca**.

EDC PRESENTS FITT STUDENT AWARD

Stephen Poloz, EDC's Senior Vice-President, Corporate Affairs and Chief Economist, presented the 2005 Student of the Year Award to Tom Lister of Vancouver at the Forum for International Trade Training (FITT) Annual Conference in Halifax, Nova Scotia in June. Students enrolled in FITT's programs of international trade studies were eligible for this prestigious award. Mr. Lister founded and heads Data Meridian Research, an information consulting firm that helps its clients develop a competitive advantage in international markets. For more information, visit **www.fitt.ca**.

EDC EMPLOYEES WIN PUBLIC SERVICE AWARD

The Public Service Award of Excellence 2006, for "Excellence in Citizen-focused Service Delivery", was recently presented to International Trade Canada's eCRM (Customer Relationship Management) team and two employees of EDC's eBusiness team. Kate Voltan and Meredith Millman were recognized for their work promoting EDC's trade finance services in partnership with the Virtual Trade Commissioner (VTC), a free online gateway to some 500 Canadian trade commissioners around the world. VTC, created by International Trade Canada, provides customized country information, business leads and convenient entry to EDC's services for Canadian exporters. "The VTC is a great example of multiple government departments working together for a common goal," says Voltan. To learn more about the VTC, visit **www.infoexport.gc.ca**.

STATS ON CANADIAN EXPORTS TO CHINA

China has become the fourth largest market for Canadian exports behind the United States, Japan and the United Kingdom, according to a recent study by Statistics Canada. In total, Chinese imports from Canada have more than tripled since 1998, rising at an average annual rate of 21 per cent. Nevertheless, in 2004, China's total imports of Canadian goods, worth USD 7 billion, accounted for only 1.3 per cent of China's total imports. Put into perspective, in 2004, China imported more than USD 94 billion from Japan alone. See **Canadian Exporters and a Booming China** (1998 vs 2004) in *The Daily* for March 14, 2006 at **www.statcan.ca**.

NEW CHIEF ENVIRONMENTAL ADVISOR

Greg Radford has been named EDC's Chief Environmental Advisor. Since joining the corporation in 1999, Greg has been instrumental in developing EDC's Environmental Advisory Services (EAS) into a world-class environmental team. As Chief Environmental Advisor, Greg will continue to direct the operations of the EAS team, provide strategic advice and guidance with respect to all environmental matters impacting EDC, and liaise with EDC clients and international financial institutions on shared environmental practices and priorities. **gradford@edc.ca**

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 am to 6 pm EST.

Insurance

FAre you sure your U.S. or foreign customer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **www.edc.ca/insurance**

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than one million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

TOP TEN
QUESTIONS WE HEAR AT EDC

Many Canadian companies aren't clear on the products and services that EDC provides. Based on the questions put forward by Canadian exporters and investors, our in-house sales and support team has compiled a list of the Top 10. In the last issue we examined: *How can EDC help your company, What is a bond and can EDC issue one*, and *How do you start moving into new markets*? In this issue, we examine the final four questions:

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7. CAN YOU FIND ME CUSTOMERS OR SUPPLIERS, AND CAN YOU FINANCE MY CUSTOMERS?

For finding customers and suppliers, Team Canada Inc or Canada Business are two of the best sources. There is also a company database available on Industry Canada's web site at **www.strategis.gc.ca**.

EDC can provide loans to your customers (outside of Canada) to encourage them to buy Canadian goods and services. This is done in a number of ways, such as direct loans or setting up lines of credit with foreign banks so that they can lend money to their local businesses. These are just two ways we can help. For more information, go to **www.edc.ca/financing**.

8. I'D LIKE TO EXPORT TO A PARTICULAR MARKET. CAN YOU COVER ME IF I MAKE A SALE THERE?

It depends on the market and what you want to do there – some countries and sectors are inherently more risky than others. However, EDC's role is to help you sell your goods and services outside of Canada, so if we can find a way to make it happen, we will. Call us with details (1-866-283-2957).

9. HOW MUCH DOES EDC'S INSURANCE COST? CAN YOU GIVE ME A QUOTE?

We have a number of different types of insurance. Which one is best for you and how much it will cost depends on your particular need. We'll need to know about the goods or services you're exporting, the market you're shipping to and the payment terms your customer is offering. With this information, we can provide you with an estimate. Then you can send us an application for an exact quote. If you're specifically interested in Accounts Receivable Insurance, you can apply online by going to **www.edc.ca/ari**.

10. WHAT PERMITS OR TAXES ARE INVOLVED IN EXPORTING?

For customs information, check with the Canada Border Services Agency at **www.cbsa-asfc.gc.ca**; for tax-related information, visit the Canada Revenue Agency at **www.cra-arc.gc.ca**. Team Canada Inc and Canada Business also provide resources to help you in these areas.

We want to hear from you! *For more information about these and other questions, contact us at 1-866-283-2957.*

Michael Toope
Editor

This summer 2006 edition of *ExportWise* is the third since we reworked the magazine's content and design in an effort to address the results of focus group research we did with readers in 2005. When you receive this, we'll be in the process of developing our content for 2007. Please let me know if you are satisfied with the changes to date and if you have any suggestions for subjects you'd like us to address next year!

Meanwhile, here's a preview of some articles that will appear in our fall 2006 edition:

Canada's aerospace industry

Canada has been an innovator in the aerospace sector since the earliest days of flight. More than airplanes, the industry comprises helicopters, simulators, and aircraft parts manufacturers, airport construction and management services, and many other categories of suppliers. It's an intensely competitive global industry and we'll get some expert advice on how to succeed in this tough environment.

Brazil

Brazil is a hot destination for exporters and investors in oil and gas, telecommunications, power, mining, advanced technology and manufacturing, forestry. EDC facilitated more than $1 billion in Canadian exports and investments in Brazil in 2005, which means we were involved in most of the Canadian business in the country. We'll take a detailed look at the opportunities, and talk to some major buyers in Brazil and to some Canadian companies that have established Brazil as one of their foreign markets.

Focus on the United States: New York

New York is one of the biggest U.S. markets for Canadian exports and investment. We'll talk to the Canadian Trade Commissioners working on location to serve Canadian companies to learn about the most promising export sectors and investment opportunities.

Expansion Capital

Accessing the capital needed to finance growth is often problematic for small and medium-sized enterprises. We'll take a look at how EDC partner Priveq Capital Funds is helping out.

Profile of Doğan Holding

Doğan Holding now ranks among Turkey's top three conglomerates with an interest in six major business areas: energy distribution, insurance, media, industry, trade and tourism. Doğan is looking to increase its procurement from Canada.

Risks in the Andes

In the fall of 2005 we took a detailed look at prospects in Andean countries. A brief return to that region will assess how political developments over the past year have impacted the market.

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Canada EDC

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at

1-888-332-9398.

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at

1-888-332-3777.

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Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **www.infoexport.gc.ca**.


Want your export business to grow? We can help. As Canada's trade finance specialists, we help thousands of Canadian companies and their global customers in up to 200 markets around the world every year. Through our wide range of financial products and services such as financing and cash flow management solutions, we can help your business expand in the global marketplace. We can also help you manage the risks of doing business abroad with our insurance, guarantees and market knowledge. To find out how Export Development Canada (EDC) can help you take your export business to the next level, contact us.
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EDC'S MAGAZINE FOR CANADIAN EXPORTERS

FALL 2007

ExportWise

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Manufacturing

Canadians link into global supply chains

INSIDE

- Africa: Private sector fuels growth
- Local Currency Financing: meeting demand for financing alternatives
- Panama: Opportunities in infrastructure

Is the Beleaguered Greenback Due to Rebound?

BY STEPHEN S. POLOZ

The U.S. dollar has been in decline for five straight years, but the preconditions of a period of dollar strength are falling into place.

Stephen Poloz,
Senior Vice-President, Corporate Affairs and Chief Economist

The U.S. dollar has been in continuous decline for over five years now, and it is widely believed that this trend is set to continue for the foreseeable future. Yet recent events have made some forecasters think twice about this view – with good reason.

Textbook economics suggests that the dollar will fall over time to shrink the massive U.S. trade deficit. Only problem is, the dollar has been falling steadily for five straight years and the trade deficit has increased. Indeed, the greenback broke its downtrend this summer and moved up in the midst of global financial market turmoil. No doubt, this reflected the U.S. dollar's traditional role as a safe haven in times of trouble.

Dollar bears quite naturally see any strength in the greenback as highly temporary, believing that the summer market turmoil was just a financial aberration. But it is more likely that the U.S. sub-prime meltdown was a symptom of retrenchment in U.S. consumer spending that will have persistent repercussions on the rest of the world. As in all past global business cycles, we would see lower commodity prices, slower growth in emerging markets, and a much larger widening in emerging bond yield spreads than experienced so far – and the associated safe-haven effect could push the dollar higher for the next 12-18 months.

Those who fret over the U.S. trade deficit, of course, find this scenario difficult to swallow. But these traditional analyses of trade deficits rest on a purely geographic interpretation of trade flows. According to this conventional wisdom, any export from one country (say, China) to another (say, the U.S.) means that someone must convert U.S. dollars into Chinese yuan to pay for the exchange. This is done at China's central bank, which in turn invests the accumulation of U.S. dollars in interest-bearing form – effectively, lending the money to the U.S. to finance its trade deficit.

These days, though, companies are global in scope, and a lot of international trade happens within those companies. For example, a U.S. manufacturer might have components made in China by its own subsidiaries, import the parts to the U.S., finish the product, and then sell it, perhaps mostly in the U.S. This creates a U.S. trade deficit with China that is internal to the company – a deficit that is created on purpose, is self-financing and therefore is sustainable. Taking account of trade with majority-owned foreign subsidiaries implies that over 40% of the U.S. trade deficit (and over 60% of the non-oil deficit) is inside of multinational companies.

What this means is that a very large part of the U.S. trade deficit is self-financed internally, implicitly in U.S. dollars. Only the foreign local costs require conversion in the foreign exchange market. And given that the global use of dollars far exceeds the size of the U.S. economy, the financing of the rest of the trade deficit has been very easy to do. Indeed, it is estimated that U.S.-owned foreign affiliates generate some $4 trillion in sales abroad each year, which means that the U.S.-dollar economy is far larger than what we define as the U.S. economy, a purely geographic concept.

The bottom line? Many seem to forget that the U.S. dollar rose by 30% from 1996-2002, before it came back down to earth during 2002-07. That earlier period of dollar strength was associated with slower global economic growth, rising risk and financial volatility – exactly what the world faces today.

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

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ExportWise

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Exporting Success Stories

Extreme CCTV Inc.

Burnaby, B.C.

BY TOBY HERSCOVITCH

"In thousands of untold cases, Extreme CCTV is providing the evidence that leads to arrests and convictions," says Jack Gin, President and founder of Extreme CCTV Inc. The company designs, develops and manufactures state-of-the-art surveillance systems – cameras and video equipment that are also illuminators, emitting infrared light to give a scene clarity and depth-of-field that few competitors' products can match.

"It lets the cameras see what's invisible to the human eye. With the clarity of picture that we pull out of any environment, we provide irrefutable evidence that is required in today's police work," adds Gin, referring to his equipment's popular use in security, among other applications around the globe.

For instance, Extreme's cameras in the London underground provided some of the video footage that allowed Scotland Yard to identify the perpetrators of the subway bombings of July 2005. Another U.K. client has ordered 50 of Extreme's pan-tilt-zoom cameras for use at an undisclosed airport terminal. Farther away, the company has supplied the Australian and South African governments with surveillance equipment for homeland security.

Now celebrating the company's 10th year of continuous revenue growth, Gin expects sales to surpass $40 million, up from $27 million in 2006.

Extreme's products go well beyond detecting criminal activities. At Petroleos Mexicanos oil fields and in the Indian petrochemical industry, for example, Extreme's explosion-proof equipment monitors industrial operations in hazardous environments. Extreme's imaging technology, which can capture details on fast-moving license plates, also helps analyze travel times in Sweden and increase efficiency at border crossings in Hong Kong.

Photo: Courtesy of Extreme CCTV Inc.

At Mt. Erebus in Antarctica, Extreme CCTV's cameras provide important observations for vulcanology research.

Maintaining night vision research labs in Canada and the United Kingdom, Extreme has earned a reputation as the global technical leader in active-infrared imaging. "You have to specialize in an area where you can be the best," says Gin. "That means performing to high standards and innovating – every month – to produce results every quarter."

To keep on growing, the company has also globalized its operations in every way, from global supply chain management to acquiring operations abroad, while simultaneously building on its in-house engineering expertise in imaging technology.

Working with EDC since 1999, Gin says: "EDC opened up new sales channels around the world for Extreme, especially in Europe. We're more comfortable with EDC's insurance, the banks like to know that we have EDC's guarantee and we help our customers when we can provide them with financial credit through EDC."

Both Gin and his company have won many business accolades, including the Canada Export Award in 2003. But among the biggest rewards for Gin: "Our equipment is applied at important security projects around the world. As engineers and innovators, it is very satisfying to see our products ultimately helping to improve security. I believe that security is the foundation upon which we can exercise our freedoms." **www.extremecctv.com**

Photo: Courtesy of Iceculture Inc.

Coming in from the heat: Patrons at *Chillout* Restaurant in Dubai. Ice tables, chairs, curtains, dishes and "paintings" were created in Iceculture's Hensall factory and shipped overseas.

Iceculture Inc. *Hensall, Ontario*

BY TOBY HERSCOVITCH

It's the ultimate Canadian cliché – carving a living out of ice. Of course, Iceculture Inc. isn't about selling any chunk of ice. This is a $5 million business exporting massive blocks of crystal-clear carving ice, ice sculptures, even complete ice lounges, specialized carving equipment and much more.

Water from Hensall's town well is transformed into icy wonders that are shipped by freezer containers to the far corners of the world – hot spots, like South Africa, Australia and Dubai, and cold corners, like Iceland and Norway.

In 1996, Julian Bayley and his wife Ann turned an ice carving hobby and sales of ice-punch bowls for local weddings into a steady business. The company generated revenues of about $100,000 that year and landed its first export order for raw ice blocks from the United Kingdom. Iceculture has since created caviar serving trays for a charity gala at Elton John's English manor; built permanent ice lounges in Australia, New Zealand and South Africa; and supplied sculptures to some of the biggest events in the world, like the Super Bowl. Eighty per cent of its production is now exported.

Iceculture is still creating new ice experiences. In Dubai, it recently completed an ice restaurant, fully furnished in ice, from the tables to the "paintings" made with ice, snow and food colouring. But the secrets of Iceculture's success go well beyond carving skills. Bayley's passion for technical innovations in carving equipment has made the company a pioneer in the industry. "We perfected a fully automated carving machine which can reproduce a logo or licensed design, like Mickey Mouse, with 100 per cent accuracy. One person can produce 100 carvings a day," says Bayley.

No less innovative was his launch two years ago, of adviceinice.com. "Before this website, carving was a lone craft. We shared everything, mistakes included. Our site has become a worldwide resource hub for this business," adds Bayley.

Iceculture's R&D and marketing savvy have helped make the company a leading force in its industry. Not so long ago, however, banks were still frosty to the idea of exporting ice. "When we started shipping ice blocks to the United Kingdom, our bank wanted security. We wouldn't have been able to export without EDC providing that security through their shipping (export credit) insurance."

"Now, we work with EDC on all our export projects and, without its help, I am sure we would not be able to operate as successfully."

What about the risk of the investment melting? "We set up an ice lounge in Sydney, Australia, near the Opera House two years ago and we're only just doing the refit – after nearly two years and thousands of visitors," notes Bayley.

"We will be going back to Australia to build lounges in Cairns and Perth, and we may have eight more restaurants to build in the Middle East through our customer in Dubai. We are also quoting projects in Madrid, Thailand and India." A Taj Mahal in ice, anyone? **www.iceculture.com**

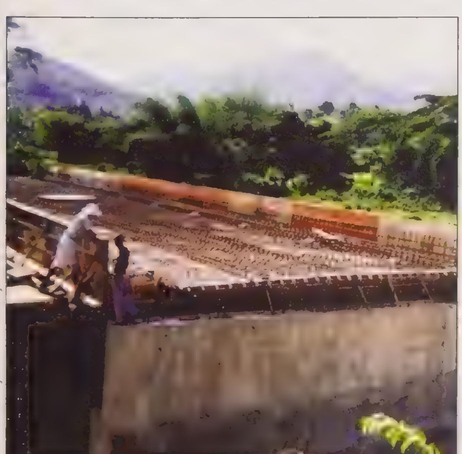

Photo: Courtesy of R.A. Murray International

R.A. Murray International is currently managing the Jamaica Bridge Development Program.

R.A. Murray International *Halifax, Nova Scotia*

BY PETER DIEKMEYER

Like many businessmen who visit Jamaica, Richard Murray quickly took a liking to the island. More than four decades have passed since that first trip, but the Nova Scotia-based head of engineering services innovator R.A. Murray International has been doing business there ever since.

Today, the company is in the midst of a $50 million initiative to design, build and finance 20 highway bridges, which are crucial to helping spur Jamaica's economic development. "We have done a number of projects there," says Murray. "For the current initiative, the pre-planning work has mostly been done. We are waiting for some paperwork to go through so we can get production in gear."

Murray isn't the only westerner to fall in love with Jamaica. Tourism, spurred by the country's pristine natural beauty and the hosting of events such as the 2007 World Cup of Cricket championships, is a key revenue earner. As a result, the country put a strong emphasis on

maintaining and upgrading its infrastructure, particularly near large population centres.

Although R.A. Murray International has a proven track record for managing complex projects, the Jamaica Bridge Development Program is a significant undertaking. As project/procurement managers, the company is responsible for design and oversight of the civil construction, much of which is undertaken by local contractors, as well as sourcing and shipping components such as steel girders, piles, traffic rails and other accessories from Canada to Jamaica. R.A. Murray also adds value by taking on and training junior engineers from the Jamaican Ministry of Works to help with project oversight.

Few people are more equipped to handle the challenges than Murray himself, who brings to the table a solid background in engineering, raw materials and charter/shipping operations. He also lived in Jamaica for 12 years during his extensive dealings in the country.

But it's not always easy. "In some parts of the Caribbean, it's like going into the past. They have not always adopted modern methods. For example, many of the sub-contractors use old form systems for concrete that take a long time to assemble," says Murray. "But in other ways, such as in the volume of cell phone usage, they seem to be ahead of us."

Financing is also a key challenge. "There have been cases in the past where local contractors have waited 200 days and sometimes even more to get paid," says Murray. "So we have to be very careful."

Building a bridge is a significant undertaking in any jurisdiction. So Murray takes full advantage of the knowledge that he has picked up from key players in government, potential sub-contractors, the bidding process and local regulations. These come in handy when managing sensibilities over such issues as roads or water lines that need to be temporarily re-routed.

"Dealing with government bureaucracies is always a slow process," admitted Murray. "But that's true in almost any country. I love Jamaica and would be thrilled to do more work here." **www.ramil.ca** ■

Geniro Systems Inc. *Laval, Quebec*

BY NATASHA CAPPON

Geniro Systems' growth accelerated when it expanded in the booming oil and gas market in the Middle East. Founded in 1996 by company president and electrical engineer Stefan Stan, Geniro provides industrial clients with electrical and automation system engineering, procurement and installation services.

From the beginning, the company exported 60 per cent of its products and services, mainly to the marine industry in the United States and Europe. Seeking new growth opportunities, Geniro branched into the oil and gas sector in Algeria, Libya and Saudi Arabia.

"With the saturation of our domestic market, we began to systematically scan foreign markets to see where the opportunities were for leveraging our products and services. We found that the Middle East was a growth market with long-term potential for our company," says Stan.

Sales have grown seven-fold in the last four years. "We had $1.1 million in sales in 2003, and then our international business division really grew with sales reaching $7.7 million in 2006," adds Stan.

To succeed abroad, Geniro hired local people with a network of contacts who were well-informed about local market conditions, business requirements and cultural norms. "We focused on understanding the market and the needs of our clients so that we could offer innovative and practical solutions at competitive prices."

Its latest successful contract, worth more than $20 million, was with Algeria's state-owned oil company, Sonatrach. This two-year project, providing electrical and control systems for two oil terminals, is being completed this fall. The company was recently awarded a third project in Algeria's oil sector, valued at $10 million and involving the installation of lighting systems.

Stan notes that while Geniro was building its Middle East business, "We found out about EDC from our bank while bidding for our first project in Algeria.

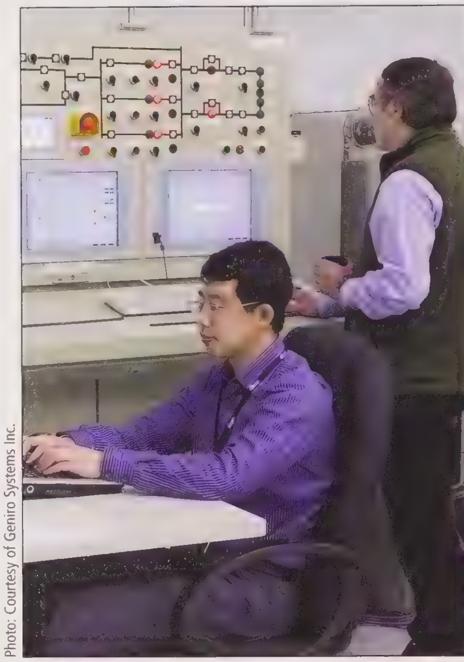

Photo: Courtesy of Geniro Systems Inc.

Geniro Systems exports 60 per cent of its products and sees the Middle East as a growth market with long-term potential, particularly in oil & gas sectors.

EDC was instrumental in helping us grow our business in emerging markets by providing bid bond and performance bond guarantees. We couldn't have done our international projects without them. EDC is really a blessing for Canada."

Geniro benefits not only from EDC's financial and insurance products, but also from its ability to provide information on economic and country-related risks. "We stay in regular contact with EDC's local representative Harold Riley. He makes a point of knowing our business, and has been a key source of help and advice."

Geniro employs 50 people in Laval and Algeria. On the horizon is the company's development of a Multisource Power Generation System which combines wind turbines and solar cells to provide renewable energy to rural and underdeveloped regions. Geniro was awarded Laval's 2006 Mercador Award for diversification of export activities. **www.genirosystems.com** ■

Canal Expansion Unlocks Opportunities

BY BRUCE GILLESPIE

– Cargo ships wait to cross the Gatun locks in Colon at Panama's canal.

While many Canadians may think of Panama as a prime vacation spot, it is also an international logistics hub because of its geographic location and the Panama Canal. With plans to expand the canal now underway, Panama's economy is booming, providing excellent opportunities for Canadian exporters and investors in the infrastructure, energy, construction and training sectors.

Good positioning

Denis Tremblay, sales and marketing manager of MacDougall Steel Erectors Inc., of Charlottetown, had never visited Panama before joining an official Atlantic Provinces trip organized by EDC and Nova Scotia Business Inc. this past June along with 11 other exporters. Like many Canadians, he didn't know much about the country, but what he saw there impressed him.

"It's a beautiful country that's on the cusp of becoming more prominent on the world stage, and I think it's going to be good economically," says Tremblay. "Of all the Central American countries, Panama is the one the others look toward. It's at the forefront of development, so when Panama is doing something, the other countries follow."

Located on the isthmus that connects Central and South America and links the Pacific Ocean and the Caribbean Sea, Panama is ideally situated for international business. "Panama was born globalized," says Romy Vásquez de González, the country's ambassador to Canada. "Panama's location and geographical characteristics dictate the vocation of the land to serve international trade and commerce."

The country also features one of the most stable economies in the region, making it ideal for foreign investment. "It's a small economy, not as vast as Brazil or Mexico, but it presents great opportunities for Canadian companies because it's got the right mix of projects," says Nathan Andrew Nelson, EDC's Regional Manager for Latin America.

Growing, stable economy

Home to 3.2 million people, and a growing number of foreign retirees looking for warmer climes, Panama has a GDP of USD 17.2 billion and a per capita GDP of USD 4,700, among the highest in Latin America. It has a low inflation rate of about two per cent and has experienced steady economic growth in the past few years. The annual growth rate was 8.3 per cent in 2006, up from 6.4 per cent in 2005, and is expected to reach between nine and 10 per cent this year.

Three-quarters of the country's GDP comes from the service sector, as Panama is a hub for international shipping and logistics thanks to its geographic location and the Panama Canal. The country uses the U.S. dollar and is an international banking centre, with more than 70 banks doing business there, making it one of the most stable, modern systems in the region. Because of the historical influence of the United States, Nelson says Panamanians feel at home with the North American style of doing business. "A lot of times, that makes for an easier adjustment for a Canadian company than going into Brazil or even Mexico," he says.

The overthrow of General Manuel Noriega's dictatorship in 1989 marked a turning point in Panama's political history. Its government is committed to improving the country's infrastructure and expanding its international reach.

"Panamanian democracy has become increasingly stable since 1990, although democratic governance still needs to be strengthened," says Canadian ambassador José Herrán-Lima. "But the devolution of the canal to Panamanian sovereignty and administration has allowed Panamanians to look at their country as a logistical platform in which the canal is but one of their assets. It has the potential of converting into a prosperous country within the next 20 to 30 years, and Canadian companies are well positioned to contribute to and benefit from that wealth generating process."


Photo: Courtesy of MacDougall Steel Erectors Inc.

Panama is in the midst of a construction boom as the country becomes a popular destination for tourists and retirees, presenting opportunities for Canadiian companies such as MacDougall Steel Erectors.

Panama Canal expansion

One of the country's biggest infrastructure projects is the expansion of the Panama Canal, which is expected to cost USD 5.2 billion and continue until 2014. The project, approved by the Panama National Assembly and supported by voters in a national referendum in late 2006, will see the construction of a third set of locks to expedite shipping between the Atlantic and Pacific oceans. The new locks will be substantially deeper and wider than the original two completed in 1914 to accommodate today's increased demand and larger vessels.

Besides the work directly involved in the expansion, which includes excavation, dredging and project management, Nelson estimates there will be another $5 billion worth of spin-off projects that Canadian companies may bid on. "We had an interesting meeting with Deputy Administrator of the Panama Canal Authority (ACP), Jose Barrios, and he was mentioning they'll need to build three ice-making plants used to cool the concrete when building the locks. This is just one example of the types of projects that are based on the canal but involve secondary support industries." He says the ACP will require a host of other products, including construction materials, heavy equipment and housing, as well as medical, waste management and telecommunication services throughout the expansion.

Nelson says the procurement process for both the expansion project as well as the ACP's ongoing requirements is modern, transparent and simple to navigate. Interested companies must register via the ACP's English web site (www.pancanal.com/eng/procsales/buy.html), providing information about themselves and declaring their interest in various subsectors of goods and services the ACP purchases. Once they are added to the database, companies are emailed about relevant bidding opportunities. "The ACP is heavily watched from international eyes because it's such an important international logistics centre, so it's one of the better points as far as transparency goes," says Nelson.

Growth in energy and construction

Although the Panama Canal expansion is one of the country's biggest projects to date, Vásquez de González says there are many other promising sectors of the economy that Canadian investors and exporters should explore. "Economic growth and investment will not prosper unless there is energy to support it," she says. "Electric power will be required in the next five years to keep abreast with current demand growth."

Herrán-Lima says the Panamanian government is pushing for the country to become a major distribution centre for fossil fuels. That will provide opportunities for the private sector in expanding the existing storage capacity for oil and natural gas. He says the government is also interested in building refineries on

With tourism growing and plans to expand the canal underway, **Panama's economy is booming,** providing many **opportunities** for **Canadian exporters and investors** in the infrastructure, energy, construction and training sectors.

the Pacific coast. Currently, oil companies are in the second phase of a project to build a Pacific coast refinery that will process 350,000 barrels a day.

Nelson says he is also seeing interest in renewable energy projects, such as small-scale hydro stations and projects that combine wind and solar with diesel power. "One of Canada's key capabilities is developing hydro projects, so we're helping to position companies with our contacts in the government and the private sector."

Panama is also in the midst of a construction boom. Herrán-Lima says there are already 107 condominium buildings being built in Panama City that are 20 storeys or more, as the country becomes a popular destination for tourists and foreign retirees. Although buildings in Latin America tend to be built with concrete instead of structural steel, as they are in North America, MacDougall Steel Erectors' Tremblay says he saw lots of opportunity for his company while visiting Panama. Because cement prices are rising as its availability decreases, he expects to see increased demand for his products.

"Our productivity is much higher and we have a wider variety of choices in steel. We can make things lighter, and our erection techniques are by far superior, so we can erect a lot quicker," he says. "We think there's potential in Panama, and we're intent to follow through. I think the demand is there and it's only going to get better."

Training and human capital

Herrán-Lima says there is also increasing demand for vocational and technical training. "This is an area of high priority for the present government because one of its challenges is to fill the jobs that will be created with Panamanians," he says. Currently, about 40 per cent of Panamanians live at or below the poverty line, so providing them with the technical skills necessary to participate in the construction boom, for example, is something Canadians could provide. "In the construction sector, I already see the beginning of a shortage of trained personnel. You have not seen the end of the demand for labour because the Panama Canal expansion hasn't started yet."

Although Spanish is the country's official language, Herrán-Lima says the government is also undertaking a country-wide initiative to train all Panamanians in English. Although most of the business class is fluent in English, as many of them attended university or language training courses in the U.S. or Canada, many of the country's workers are not, so Herrán-Lima says there are definite opportunities for Canadian companies in providing language training.

Competitive advantage

Nelson says the EDC is open with all of its products to help Canadian companies and investors do business in Panama. In particular, he says EDC can help Canadian companies be competitive in bidding on tenders relating to the Panama Canal expansion with its insurance products on bid and performance bonds. Bid bonds are required along with tenders in the amount of 10 per cent of the bid price. Performance bonds are required of winning bidders in the amount of no less than 50 per cent of the contracted amount for construction and 100 per cent of the contracted amount for goods and services.

"Because a lot of these projects have many different steps and levels, you don't want to be concerned that any part of the project will slow down the rest, so we're hoping we'll be able to be an influencing factor for Canadian investors by providing them with the guarantee structures for their bonds," says Nelson.

Although Panama recently announced intentions to sign a free trade agreement with the U.S., Nelson says this is not an insurmountable challenge to Canadian businesses. "Does this hinder us? Yes. Any kind of a bilateral agreement like that positions Canada second on the list as far as tariffs go," he explains. "But is it going to be that significant? Probably not, but we're hoping that our government moves quickly to get something bilaterally with Panama also."

What works in Canadians' favour is that Panamanians have a very good impression of them, says Herrán-Lima. Many Panamanians sought refuge in Canada during the Noriega dictatorship and see Canada as progressive, advanced and democratic.

"Panamanians would like us to be better known here and wish we had more contact with them," he says. Vásquez de González agrees, saying Canadians are noted for our support for human rights and our willingness to embrace new cultures and languages and, as such, are welcomed as trading partners. "We think Canadians have not discovered yet the opportunities in this region. Panama is the route to be discovered in terms of tourism and investment," she says.

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Canada's Manufacturing Sector in Transition

BY GILBERT LE GRAS

Photo: Courtesy of Lovat Inc.

Canadian manufacturers are in the midst of a fundamental change in how they do business. Driven by opportunity and necessity, manufacturers are linking into global supply chains or building their own to reduce costs and get closer to their customers. For some, this change is vital to growth while for others, it's essential to survival. Along the way, the jobs of thousands of Canadians are changing too, some lost forever to low-wage markets, while new ones are created back in Canada.

◀ Lovat Inc., Toronto-based makers of construction equipment such as tunnel boring machines, have shifted some assembly to Eastern Europe and China to be closer to their markets.

The domestic manufacturing sector includes 21 industries from petrochemicals, pulp and paper and food and beverage preparation to computer and electronic products, furniture and machinery. Since World War II, Canada has transformed from a largely rural economy to an urban, high-technology manufacturing powerhouse employing tens of thousands of workers in the auto and parts industry to specialists like hockey-equipment makers with a dozen employees. The 1989 Canada-U.S. Free Trade Agreement touched off a dramatic increase in regional trade and economic integration that is now seeing the country rise to the same challenges but on a global scale.

The case of Toronto-based construction-equipment maker Lovat Inc. illustrates how manufacturing in Canada has evolved.

Lovat makes tunnel boring machines that look a lot like those in "The Matrix" movie trilogy, and is one of just a handful of companies to assemble these high-tech digging machines around the world.

"We've seen that the cost of manufacturing in Canada is very competitive with Europe. We're closer to the United States and our labour costs are cheaper up here," company founder Rick Lovat said between business meetings in Lisbon, Portugal.

Lovat has been in business since 1972 and has for a long time imported the massive gears and bearings as well as motors and control systems it assembles in its huge digging machines.

"What we've seen in the past five or 10 years – more specifically in the last two years – are new resources for us to tap, be it in Eastern Europe or Asia, China specifically," he said.

"We're buying pretty sophisticated machine tools and machines from China," Lovat added. "We're shifting some of our assembly to Eastern Europe (Ukraine) and China to be closer to our markets, but Toronto continues to be the brains."

EDC has worked with Lovat over the past five years, offering the manufacturer a wide array of financial instruments from accounts receivable insurance to account performance security guarantees, a form of one-year pre-committed bonding on letters of guarantee, letters of standby and letters of credit. Earlier in the relationship with Lovat, EDC arranged buyer financing

through a bank intermediary and bank guarantees for pre-shipment financing.

By many accounts, Lovat embodies the successful Canadian manufacturing business model of the future. Although Lovat said he is loath to use the term "globalization," that is the one word that sums up his shift in strategy to opening assembly lines in non-European Union eastern Europe and Asia.

"There's so much opportunity in those markets because infrastructure is booming. We can't make more land and you can only go so high, so tunnelling is big," Lovat explained.

In essence, Lovat captures the Canadian manufacturing experience. Trade has evolved to become both a tool of production – importing to export – and a tool of sales, or exporting. Cross-border investment is critical to this equation.

What is driving this latest transformation in manufacturing? A fundamental shift in the way the world trades. Gone are the days where a manufacturer can competitively own a forest it harvests at one end of the production cycle and a retail shop offering kitchen furniture at the other end of its factory floor.

The customer is king and their cost-value demands are tougher than ever. But this time, compared with the phasing out of tariffs across North America in the early 1990s, the competition is global rather than regional. For example, China and India are starting to rival industrialized countries in product quality and their labourers work at a fraction of the cost. That means it is cheaper for Canadian manufacturers to have more parts made abroad.

The catch is all of their competitors in the remainder of the industrialized world are doing that too, and that has turbo-charged this latest revolution in the way products are made.

Technologically sophisticated manufacturing that targets niche markets in a growing number of industrializing countries is the way of the future for Canadian factories, Canadian Manufacturers & Exporters President Jay Myers said.

"The business of manufacturers will be much more focused on design, assembly, distribution and services. It will be low volume and high variability of product and it will need to be very responsive to what customers want," Myers added.

One part of being responsive to what customers want is being close to your customer. Canada has the distinct advantage, like only Mexico, of being right on the doorstep of the world's biggest economy.

Magick Woods Ltd. of Toronto is an example of a Canadian company that has been offshoring in order to strengthen its grip on the U.S. market.

"With China, we were not able to compete in the price range of entry-level products, so we concentrated on high-end products. We wanted to fight this battle," founder Indy Pathmanathan said from one of three Magick Woods facilities in Toronto.

Photo: Courtesy of Magick Woods Ltd.

One route to success for Canadian manufacturers, such as vanity designers Magick Woods, is to fine-tune their products for niche markets.

His 14-year-old company designs and produces a range of vanities topped with either porcelain, cast marble, granite or glass as well as bases, tops and upper units in addition to medicine cabinets, linen towers, mirrors and light valances.

"We thought: 'Either we do it in North America for a high price – and the consumers lose – or we do it through global supply chain," he added.

Nearly four years ago, Magick Woods started producing at the first of what are now three manufacturing plants in Chennai, India. Three years ago, it opened a sourcing office in China with 10 staff. Pathmanathan pauses to emphasize his point and calls this strategic turn his best business decision ever.

"We brought seven components from abroad, assembled it here and then sold it in America. So we took the best of the world and added the best from Canada," Pathmanathan added. The shift of some operations to India's Tamil Nadu state was essential, since Canada has been the second-largest exporter of furniture to the world and top exporter to the United States. And EDC was there to help Magick Woods make the transition.

EDC insures Magick Woods' accounts receivables to the United States and Canada through a global comprehensive policy and is in talks with an Asian bank to guarantee credit purchases in that region of the world, EDC senior account manager Tim McGuire said.

"The traditional (Canadian) banks took this as a negative thing because the asset (Indian factories) did not count for them," Magick Woods' Pathmanathan said. "I had to pay cash for everything and in the other country I couldn't get a loan because I'm not a citizen there," he added.

Magick Woods points to a possible route to success for more Canadian manufacturers in the not-so-distant future: fine-tuning products for a niche market and producing in the most cost-effective way available on Earth.

"The manufacturers who are doing well have special technology and a highly skilled workforce," said Jack Mintz, professor of business economics at the Joseph L. Rotman School of Management at the University of Toronto. "I think technology will be the most important factor in determining who stays," Mintz said.

Higher fuel costs could also compel manufacturers to relocate near the mines and forests from which they source their raw materials in Canada to turn out their products more efficiently, he added.

"Five years from now the Canadian manufacturing sector, as a proportion of the overall domestic economy, may be a bit smaller but not gone," Mintz said. "Some industries are likely to be more successful than others and cost efficiency is vital to ensure this success."

Labour Pains

Canada's manufacturing sector has shed 275,000 jobs since its peak in late 2002, marking the most significant contraction since the recession of the early 1990s, according to Statistics Canada.

Comparing Canadian manufacturing wages to those in China is a compelling illustration of why this is happening. It takes a Chinese factory worker almost one year to earn what his Canadian counterpart is

Photo: © Benjamin Rondel/CORBIS

paid for one week, yet this wage is still, in some instances, ten times what the Chinese worker would earn doing something else in the inland provinces of China.

What jobs are being created in Canada, where unemployment is at a three-decade low?

"We need to have a reallocation of resources to those sectors where value-added is high and demand is strong," Bank of Canada Governor David Dodge said after presenting July's Monetary Policy Report Update. This seems to be happening. In a number of cases, the displaced jobs are ending up in booming Western Canada in fields as diverse as construction to the oil patch.

In the last three years Canada has created more full-time than part-time jobs. Considering the average manufacturing wage in Canada is about $936 a week, the new non-manufacturing jobs created are for the most part high-paying as well.

One of the biggest booms in Canadian job growth has been in construction – homes, offices, roads and factories – and those jobs pay about $919 a week. Some 190,000 construction jobs have been created in the last three years. Finance, insurance, professional and technical jobs have grown by about 200,000 and those positions pay around $980 a week. While the Bank of Canada's summer Business Outlook Survey found companies' investment intentions remained strong despite some easing, labour shortages have ebbed along with hiring intentions.

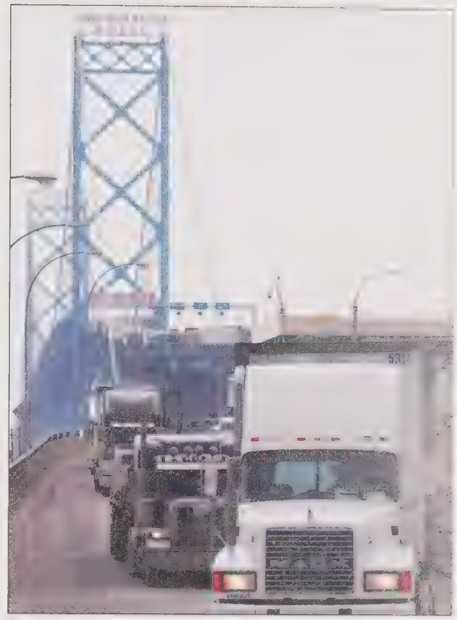
This could mean the Canadian labour market is over the toughest part of its transition. The numbers suggest there are more high-skilled jobs than before this transition began and that the shift has been less painful for Canadian workers than in the 1990s.

"What are being left in Canada are the higher skilled, white-collar jobs. Overall management, design and logistics, it's all being handled in Canada," said EDC light manufacturing sector advisor Scott Macdonald.

Global labour shifts

Canadian manufacturing employment fell 1.65 per cent between 2003 and 2005, the period that saw the sharpest appreciation in the Canadian dollar. In that same period, when the U.S. dollar was also depreciating relative to many major currencies, American manufacturing employment dropped 1.74 per cent, according to U.S. Department of Labor data. The United Kingdom, meanwhile, lost 7.78 per cent of its factory jobs in that time frame while Germany shed 3.1 per cent.

A joint International Labour Office and World Trade Organization study in February found that, during trade liberalizing initiatives, the skills premium not only rises for workers in industrialized countries but also for those in developing economies, notably in Latin America. That same study also found that a lot of "employment reshuffling" takes place within sectors. While factory workers getting pink slips face some hard choices, Canadian industry is looking forward to an overhauled and more technologically advanced workplace.



Overall, transportation seems to be getting slower and the cost implications are significant.

Canada's geographic advantage

Canadian manufacturing still draws great benefit from its geographical proximity to the biggest market in the world. With just-in-time delivery remaining a crucial factor in procurement decisions, proximity matters.

Improvements to Canadian transportation infrastructure would help Canadian companies maintain their unique access to U.S. markets. For example, the port of Los Angeles-Long Beach may be the busiest on the West Coast but it is also among the most congested. Vancouver and Prince Rupert, meanwhile, offer a sailing time advantage of roughly two days to Asian markets over all other ports in the Western Hemisphere. Rail links to those ports into the United States are longer by distance than Los Angeles but go through fewer population centres so cargo actually moves faster because it runs into fewer bottlenecks.

"We just have to build up the infrastructure around (Vancouver and Prince Rupert) because in terms of global value chains, these could be very important assets," CME's Jay Myers said. "We could make Canada the transportation hub of North America," he added.

The regions of southern Ontario and Quebec are two of the leading industrial zones in the world, in the same league as Italy, Germany and Japan in terms of

skilled labour, education and proximity to major markets, Myers said. Both share a border with the U.S. and are linked to it by major highways, rail routes and the St. Lawrence Seaway.

But elsewhere in the world, transportation and logistics remain a costly challenge. For Lovat, the clincher for moving some operations abroad was customer demand for timely delivery, in addition to competitive pricing. "Transportation seems to be getting slower rather than faster and the cost has become significant," he added.

EDC's role

Canadian companies are going global – off-shoring parts production, integrating into global supply chains, getting closer to their markets – and EDC is helping them to do it. In 2006 EDC facilitated 80 transactions involving foreign investments by Canadians worth $5.9 billion and had already surpassed that volume by mid-2007. Most of this EDC support for investment has been concentrated on the mining, energy and infrastructure sectors.

EDC facilitates investment with political risk insurance, which provides companies with risk mitigation and access to additional financing from lenders for projects in higher-risk markets. EDC directly finances foreign acquisitions, investments in foreign affiliates and in projects, and provides buyer financing to finance the sales of foreign affiliates of Canadian companies. Some of EDC's financing is now provided in local currencies which helps mitigate both the borrower's and EDC's risk.

The 2007 Federal Budget expanded EDC's ability to invest in private equity and venture capital funds. The aim is to help small- and mid-sized enterprises and technology companies bridge their gaps in financing, networking and experience as they seek to grow their business internationally. It's a trend that is already well underway and those kinds of companies, about nine in every 10 of EDC's clients, do not necessarily have big enough budgets so they could use the help.

"We'll take the risk of guaranteeing an asset that is physically in a foreign jurisdiction so they (Canadian manufacturers) can get value for their asset," says EDC light manufacturing sector advisor Scott Macdonald. "As long as the commercial and political risks are acceptable."

Global manufacturing

Exporters have to ask themselves if the glass is half full or empty.

Manufacturers could choose to see the rise of China and India as global industrial heavyweights either as a lethal threat to their existence or the answer to the major cost squeeze pressures they face at home.

The glass half-full perspective has contributed to a well-known Canadian success story. Crack open your BlackBerry and you will find components made in seven different countries in addition to Canada, where it is assembled. This kind of diversification has had two effects: it has driven down the cost of making the final product and it has muted the overall effects of foreign exchange volatility.

In many cases, however, going global is simply about growing your business. Take Toronto-based vehicle-brakes maker Nucap Industries. It decided to take the European bull by the horns in acquiring a majority stake in Pamplona, Spain-based ADI Metalparts SA thanks in part to EDC financing.

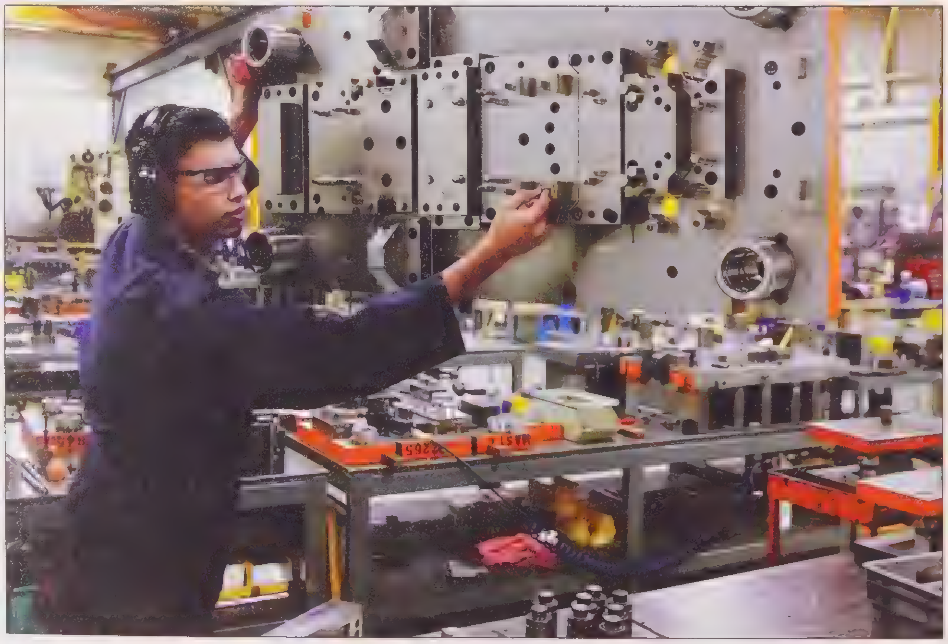


Photo: Courtesy of Nucap Industries

Toronto-based vehicle-brakes maker Nucap Industries shifted some production to a facility in Spain in order to build an international footprint and do more business with the big three automakers worldwide.

Global investment volumes

Investments by Canadian firms abroad result in improved research and development, productivity and innovation. They have also increased exports and trade. EDC estimates that each $1 invested abroad generates around $2 in additional exports in developing markets and about 60 cents more in advanced markets. By the end of the first quarter of 2007, Canadian direct investment abroad totalled $532 billion, up $8.7 billion from the end of December, mainly from injections of working capital in existing foreign affiliates, according to Statistics Canada.

The United Nations Conference on Trade and Development (UNCTAD) figures show that foreign direct investment (FDI) inflows to key Asian countries (China, Indonesia, Malaysia and Thailand), as well as to Mexico and the United States, grew more than 38 per cent from 2005 to 2006 for a whopping USD 280 billion. FDI inflows to Canada were an impressive USD 33.8 billion in 2005. UNCTAD estimates for 2006 are not yet available.

The sheer size of these investments demonstrates that many firms around the world are trying to internationalize their production and integrate into every link in the global supply chain.

Photo: © Ron Watts/CORBIS

▲ Many displaced jobs are ending up in booming Western Canada's construction and oil patches.

Crack open your BlackBerry and you will find components made in **seven different countries** in addition to Canada, **where it is assembled**.

"Despite our solid products and our technological lead, for a time it looked like we had hit a glass ceiling," Nucap Vice-President of Finance Robert Lee said. "All of the big three automakers have global purchasing policies, as do several of our clients who sell to them."

"They began telling us that if we wanted to do more business with them, we'd have to build an international footprint of our own so we could supply them worldwide," Lee added.

Canada's auto sector is the classic example of how companies are not only linking into the global supply chains by shifting parts production to where big automakers need them but also of domestic companies acquiring foreign firms, EDC infrastructure and environment sector advisor Marie-Claude Erian said.

"This is the perfect example of global supply chains. It's about managing your suppliers and managing your turnaround time," Erian said. "Each industry has a different reason for plugging into the global supply chain."

For many industries, cost control is the main driver.

Energy and shipping costs top the list of manufacturers' concerns, followed closely by the cost of materials and the Canadian dollar's exchange rate, according to a survey by the Canadian Manufacturers & Exporters industry lobby group. Meanwhile, between the start of 2002 and the end of 2006, the CME found that manufacturers' average selling prices rose 4 per cent compared with a 16 per cent rise in labour costs, a 39 per cent jump in raw materials prices and a 65 percent surge in energy costs.

This makes a compelling case for a company to scour the planet in its quest for cost effectiveness.

Another costly development has been the soaring value of the loonie in recent years. Of the vast majority of industrialized countries, it is Canada that has seen one of the steepest currency appreciations since 2002.

Many exporters remain pessimistic about the dollar's impact on their sales. Results from EDC's spring 2007 Trade Confidence Index, a survey of exporters' opinions on their prospects, indicate that light manufacturing reported a noticeable drop in expectations for export sales between the fall 2006 and spring 2007 surveys. Light manufacturing includes products such as consumer goods, furniture, textiles and clothing – all areas where export sales have been under severe pressure from the stronger Canadian dollar, weaker U.S. growth and rising international competition.

But Canadian manufacturers have been investing in response to cost and productivity challenges for a long time. Statistics Canada data on investment and labour productivity between 1961 and 2006 suggests manufacturers have been taking advantage of the loonie's rise to retool and upgrade their working capital to make themselves more competitive. During that period, increases in capital intensity accounted for more than half the growth in Canadian labour productivity. Firms have been shifting investments more to machinery and equipment (information and communications technologies leading the charge) from land and business inventories.

The result of all this investment is an increase in labour productivity – making more products per employee per hour – which saw the strongest growth in 2005 since 2000. Canadian manufacturers appear to be on a path to be better able to compete with fewer employees.

So, are Canadians better off as manufacturers navigate this transition to the global supply chain? Rick Lovat thinks so.

"For us, the brains and high-tech components are in Toronto. We have the control of the operations," he said. "The drivers of technology are in Canada." ■

The following experts provided advice for this story.

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The CME is Canada's largest industry and trade association and has a mandate to promote the competitiveness of Canadian manufacturers and enable the success of Canadian goods and services exporters in markets around the world. Prior to his tenure as CME President in 2007, Myers led CME's Manufacturing 20/20 initiative, the largest consultation undertaken by Canadian industry, which focused on the challenges facing Canada's most important business sector as well as as on the critical success factors to ensure future success in global markets.

Russia

Maturing Economy Poised for Trade

BY HUGH ROSE

Russia has grown to a level of maturity that makes it a worthwhile market for Canadian expansion

Opportunities evolve at lightning speed in Russia, where the economy is quickly diversifying beyond its petro-ruble base of recent years. Agricultural and mining equipment, aerospace and financial services are some of the sectors where Canadians companies are enjoying success.

In late spring 2007, EDC President Eric Siegel made his first visit to Russia in three years, and discovered a more mature, sophisticated economy. He was there to officially launch the Moscow-based EDC representation with a seminar to inform Russia-based Canadian business people and local investors of the benefits of Canadian trade with Russia. He also held a series of meetings with Canadian businesses operating in the Commonwealth of Independent States (CIS) that reinforced the huge potential for the trading relationship.

"The way our two countries trade is fast-growing to maturity," said Eric Siegel in Moscow on May 29. "It has taken the Canadian economy a century or more to mature into one of the world's leading economies. Russia has emerged as a world economic power in a much shorter time. Our countries will trade a billion dollars of goods this year and Canada is becoming an important partner for Russia."

Siegel observed that developments in the Russian economy are far more permanent, based on signs such as levels of foreign exchange reserves, now the world's third largest. Other notable changes include improved financial services, willingness to move to internationally accepted accounting standards, and more transparency which helps to attract foreign investment. Overall, Siegel left with the impression that the Russian market has reached a level of sophistication that puts it firmly in the ranks of the world's major emerging market players.

While there, Siegel signed an agreement with Russia's JSC VTB Bank, increasing an existing line of credit established in December, 2004 to USD 150 million in order to accommodate high demand for credit from Russian customers of Canadian goods and services and is a further reflection of EDC's confidence in the Russian economy.

"Russia presents rich opportunities for Canadian exporters and investors in many different sectors," said Siegel. "We are seeing significant growth in Canadian activity in Russia, and are pleased that the original line of credit with VTB has been fully utilized. The increase reflects continuing growth in our business in Russia as well as the key role that VTB plays in the Russian economy and our business there."

The trading relationship between Russia and Canada has experienced greater than 50 per cent growth last year and will surpass $1 billion this year. "Russia needs the things Canada makes and looks to Canada to supply it with products and services in the agricultural and mining equipment, energy, aerospace, information technology and financial services sectors," said Rod Lever, EDC's Moscow-based Russia and CIS representative."

"Our mature companies like Bombardier and our new players like RIM are ready to trade with Russia, but so are many small- and medium-sized enterprises," said Siegel. "EDC's business results in Russia are well-diversified between large, medium and small deals."

On June 19, EDC and the European Bank for Reconstruction and Development (ERBD) and Raiffeisen Leasing (Russia) signed an agreement for a USD 45 million leasing program designed to facilitate purchases of equipment by small and mid-sized buyers in Russia from Canadian and European suppliers. In sectors like oil and gas, metals and mining and telecommunications, Russia enjoys clear strengths and Canada has a role to play in supporting these growing sectors.

"Russian mid-tier markets are experiencing explosive growth, but are constrained by lack of access to capital," said Siegel. "At the same time, exporters from Canada and elsewhere have been looking for a lease financing mechanism that can help them serve this market. We tailored the program to this specific market and scenario, and we believe that it will greatly help develop opportunities for vendors."

There are signs that Russia has captured Canadian attention. Canadian exports to Russia grew last year by 54 per cent to $870 million. There are now more than 600 Canadian companies doing business in Russia. Russia is Canada's 20th best customer and the 5th best customer for Canada's exports among emerging economies. EDC was involved in facilitating $750 million of business in Russia, a dramatic 50 per cent increase over 2005. At mid-year 2007, EDC had facilitated $600 million in exports and investments with Russia.

The MDS Aero experience

"MDS Aero has been doing business in Russia since the early 1990s. We see great potential for our business in Russia going forward." said John Jastremski of MDS Aero, a Canadian company that does 85 per cent of its business internationally and uses EDC to assist with project financing.

MDS Aero is an Ottawa-based engineering company that supports the gas-turbine engine business. Russian projects to date have primarily been based in the aviation sector but are expanding into the marine and energy industries. Companies hire them for turnkey engine test facilities, test support equipment, data acquisition systems and engineering services. MDS Aero is currently supplying the equipment for two state-of-the art development test facilities to NPO Saturn in support of their SaM146 engine program. The SaM146 engine has been selected to power the new Sukhoi Superjet 100 regional aircraft. EDC has partnered with MDS to secure the long-term financing for this high profile project.

"EDC placed Rod Lever in Russia as their local representative. This encouraged us to do likewise and our business in Russia has grown to the point where we have now placed our first full-time representative in Russia to support existing customers and develop further business," said Jastremski.

Supporting companies like MDS Aero to solidify their market position in emerging economies is a role that EDC is performing in Russia and other markets. According to Siegel, "if there is a Canadian company looking to take an investment position in Russia, we are in a position to lead and provide services to that project. We do this because we know that foreign direct investment abroad generates enormous wealth back to Canada – a fact of the globalized economy."

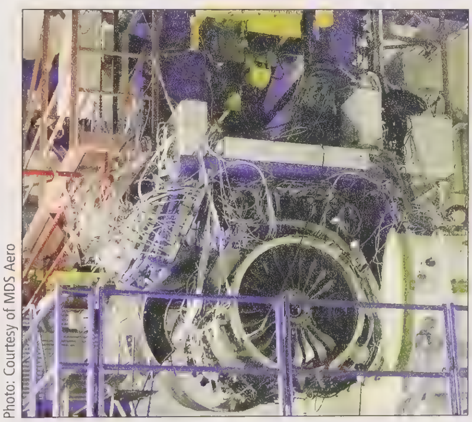
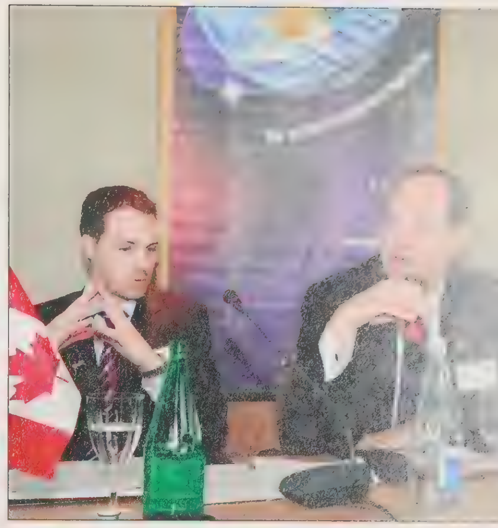


Photo: Courtesy of MDS Aero

Ottawa-based engineering company MDS Aero is supplying the equipment for two state-of-the-art development test facilities to NPO Saturn.

So where do Canadian companies in Russia stand today? Canada-Russia trade and investment was at very low levels until very recently, and is still clearly not at the levels that the match of expertise to requirement would suggest.

"Canada is still punching well below its weight in terms of market-share. European and American companies, and increasingly Asian companies, are far more visible and well-known in the Russian marketplace," said Lever. "As Canadian firms are moving into Russia, EDC will follow with an appropriate suite of financial services to help Canadian firms penetrate, sustain and build their presence in the market."



Rod Lever (left) and Eric Siegel (right) during Siegel's recent visit to Moscow to launch EDC's new representation and meet with local investors.

According to Lever, "it is helpful to keep in mind that as a financial institution, EDC views the risks of doing business in Russia much the same as doing business in other markets around the world. A Russian company with a credit rating of 'double-B' poses the same non-payment risk as a company with the same rating located elsewhere in an emerging economy. If an investor is able to understand the environment well enough to make judgements based on criteria such as payment risk, Russia really is like any other country.

Russia is fast-growing to the level of maturity that makes it worthwhile for Canadian expansion. EDC forecasts world-leading rates of economic growth in Russia over the next few years and bright future prospects. Canadian companies selling goods and services to Russia in specialized sectors of the marketplace can expect to encounter willing buyers and a more balanced economy than the "wild east" tales told just a few years ago.

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Local Currency Financing: A New Export Development Tool

BY PETER DIEKMEYER

Photos: from left to right: © Corbis, © Lee White/Corbis, © MediaImages/Corbis, © Tom Grill/Corbis, © David Toase/Getty Images

Like many businesses, the automotive industry is increasingly global in scope and competition is tougher. That means stakeholders need to be more creative than ever in the solutions they offer to help grow the sector. Recently, EDC introduced one such innovation.

Late last year, EDC announced a MXN 2 billion loan to a financing services subsidiary of DaimlerChrysler Mexico Holdings S.A. The funds were to be used to provide local financing and leasing services to wholesale and retail buyers of the company's vehicles, many of which are imported from Chrysler Canada. (Cerberus Capital recently purchased an 80.1 per cent stake in Chrysler.)

On the surface, the DaimlerChrysler deal typified the increasingly sophisticated development techniques that EDC has been employing to help grow Canadian exports. However, the initiative comprised a key new distinction: the loan was denominated in Mexican pesos.

"This deal was important because it was the first time that we had made a loan of that size in an emerging market's own currency," says EDC's Lorraine Audsley, Director, Information and Communications Technology.

Local currency financing… and the value it adds

Traditionally, says Audsley, the vast majority of international lending, including EDC's, has been done in widely traded currencies such as U.S. dollars, Japanese yen, euro and sterling, even when those loans were to companies in third countries. Markets for these currencies are very liquid, which makes them relatively stable over the medium term.

The big challenge is that many companies in emerging economies, ranging from telecommunications to electricity providers, generate much of their revenue in their own local currencies. That means they could be exposed to tremendous risks if the foreign exchange rate between their local currency and the currency of their debt fluctuates in the wrong direction before their loans become due.

"Emerging market companies which match the currency of their debt to that of their revenues have a stronger credit risk profile," says Audsley. "This desire to reduce risk is one reason for the increased demand for local currency financing from international lenders."

Furthermore, over the past 10 years, many emerging nations have restructured their debt, built up significant quantities of foreign reserves and implemented risk management policies. This has strengthened their domestic economies and has resulted in more stable currencies and better credit ratings.

The result has been a greater openness among international lenders toward broadening their lending beyond the traditional liquid currencies.

Demand for financing alternatives

According to another international financing expert, demand for local currency financing is expected to continue growing. "It is a key subject for us," says Patrick Brockie, Managing Director, Export and Agency Finance at Citi, which has been partnering with EDC to help identify and close local financing deals. "We are represented in more than 100 countries and in many of those countries we have local currency loans and deposits."

"The trend is really borrower-driven," says Brockie. "Companies that generate revenues in one currency should really be borrowing in that currency because devaluation risk is very hard to mitigate."

According to Brockie, some of the best opportunities in emerging nations are in infrastructure development projects such as those that are common in the telecom, power generation and transportation sectors.

That said, development organizations in both Europe and the United States have been quick to pick up on the fact that they can use local currency financing of emerging nations' infrastructure projects to help boost exports to those countries.

As a result, EDC has been smart to get in early, said Brockie. However, Audsley remains modest about EDC's efforts so far.

Since the financial crises of the late 1990s, **emerging market currencies** have become more stable and **interest rates** at which companies in those countries can borrow **have come down** to reasonable levels.

"We continue to look at deals on a case-by-case basis, as we build our local currency capabilities," says the financing veteran.

"The economic conditions are good right now for local currency financing," says Audsley. "Since recovering from the financial crises of the late 1990s, emerging market currencies have become more stable and the interest rates at which companies in those countries can borrow have come down to reasonable levels. So about a year ago, we decided that the time was right to start developing EDC's local currency financing capabilities."

In addition to Mexico, EDC's initial efforts were focused on the BRIC nations of Brazil, Russia, India and China. EDC is hoping to be able to lend directly in Brazilian reais and Russian rubles next year.

"Local currency financing can offer tremendous competitive advantages to Canadian exporters," says Audsley. "If we can offer loans to their potential customers in the local currency it gives Canadian exporters a leg up over their competitors who are offering dollar loans."

EDC has been building its in-house knowledge of local currency financing issues and developing its capabilities in select currencies. EDC has developed a three-tier system for categorizing currencies, with the categories primarily based on the liquidity of the currency. The next step would be to market EDC's local currency financing capabilities externally to customers.

Despite the early low-key approach, inquiries have been received regarding the possibility of loans in 18 currencies. To date, EDC has committed to transactions in Mexican pesos, Czech koruna, Polish zloty, and Hungarian forint and is currently considering transactions in other currencies.

Major challenges

Getting established to offer local currency financing is not easy. There are numerous challenges, including legal and regulatory issues that need to be worked out. EDC's Treasury also needs to research local currency markets to gauge funding and hedging capabilities.

Furthermore, once the deal is done and it comes time to disburse the loan, accumulating large quantities of emerging market currencies may be a challenge in itself. Many currency markets are not very liquid, so procuring these amounts can take time.

According to one potential EDC partner in local currency financing deals, institutions that enter into such transactions will typically want to hedge their loans, otherwise they will be taking on the foreign currency risks previously assumed by the borrowers.

"Derivative markets to hedge such local currency loans are expanding very fast and it is very exiting to be involved," says Keshav Gaur, Principal Financial Officer at the International Finance Corporation (IFC), the private sector arm of the World Bank Group, which committed over $1.3 billion of local currency loans to 35 projects last year.

Over the last few years IFC has committed over $3.8 billion of loans in 18 local currencies and hedged itself using derivative products, such as currency swaps.

"However, institutions that lend in less widely used currencies may protect themselves using products other than currency swaps, such as partial credit guaranties, or borrowing locally and on-lending locally. IFC also uses such products to provide local currency financing."

According to the EDC's Audsley, the first steps in any new product introduction are often the hardest. "Much of our initial due diligence involves a lot of legwork. Each market is different in terms of liquidity, size and central bank regulations. But in the end our efforts will be more than worth it," says Audsley.

"There is an indisputable trend out there and we want to get in early to provide a competitive advantage to Canadian exporters, making it easier for our customers to do more business in emerging markets." ■

Hutchison Whampoa

Opening Doors for Canadian Suppliers

BY PETER BRAKE

For Canadian exporters, Hutchison is more than a potential strategic buyer in Asia. The scope of its business could open doors worldwide for Canadian companies that are able to establish relations with the global conglomerate.

Frank Sixt believes that Hutchison's experience and geographic reach allows it to recognize and seize opportunity whenever it appears. Sixt is Hutchison's Group Finance Director, and a Canadian lawyer. "The depth of our management teams is the key to being able to expand into new areas while maintaining growth in established operations," Sixt says.

That drive to take on new opportunities even while maximizing the value of older businesses is a common theme throughout the company's history.

Hutchison is a sum of many parts, some of which can be traced all the way back to a small medicinal dispensary, A. S. Watson, established in 1828 in Guangzhou China by a merchant ship medical officer. The move in 1841 to Hong Kong, then a remote and untouched territory, set off rapid business growth and expansion into new ventures. As the company branched out into areas such as ports and land development, it maintained its core import-export trade business. The seminal point in Hutchison's history came in 1979 when Li Ka Shing purchased a substantial stake in Hutchison, eventually acquiring controlling interest. Li Ka Shing's astute leadership and trading ability gave focused direction and continuity of leadership.

Today Hutchison Whampoa Limited is a Fortune Global 500 company, overseeing operations in 55 countries including Canada, employing more than 220,000 people and garnering annual revenue in excess of USD 34 billion. Its portfolio comprises activity in five core areas: ports and related services; property and hotels; retail; energy/infrastructure; and telecommunications.

Maintaining this diverse global empire demands acute business acumen. Sixt attributes Hutchison's success to its sharp focus on local operations, wherever they may be. "All of our businesses work hard to establish themselves as solid local competitors on a level playing field with local players. We believe that you do not succeed for long if you remain a 'foreign' investor. You have to be a part of the local business community, responsive to local concerns and interests," says Sixt.

For Canadian companies prospecting for opportunities to link into Hutchison's supply chain, it's critical to understand the local character of the Hutchison operation. Sixt points out that Hutchison divisions control their own procurement systems. "The immediacy of their contact to clients and consumers gives them the best assessment of what is needed and available." Canadians may wish to focus on three of Hutchison's five core operations: retail, energy, and telecommunications: areas in which Canada has made significant inroads.

Retail

Hutchison owns more than 7,800 stores worldwide through its A. S. Watson & Co. Limited division which oversees some of Asia's largest retail chains as well as ranking as the world's largest health and beauty retailer. This diversity presents rich opportunity for Canadian exporters supplying to the nutritional, lifestyle and beauty product niches. Some of the most notable Hutchison brands in Asia include Watson's Your Personal Store, PARKnSHOP supermarkets, TASTE food galleries, Gourmet fine food boutiques and the GREAT Food Hall. The company also operates European luxury perfumeries and cosmetics retailers like Marionnaud, ICI PARIS XL and The Perfume Shop.

Photo: Courtesy of Hutchison Whampoa

Hutchison owns more than 7,800 stores worldwide and oversees some of Asia's largest retail chains.

Sixt says Hutchison's retail arm is intent on delivering a broad spectrum of products. "A mix of local buying and accommodating international tastes allows us to fully serve the market. Consumers everywhere are putting a premium on high quality items produced in an ecologically healthy and sustainable manner." The A. S. Watson supplier portal connects international suppliers and local sellers anywhere in the world via the Internet to achieve economies of scale.

Canada has had notable success marketing high-end products to A. S. Watson chains. "We have seen some really interesting natural and organic food products coming out of Quebec," notes Sixt. In addition, wines from leading Canadian wineries like Mission Hill are sold worldwide in Watson's Wine Cellar and Lise Watier beauty and makeup products are available in Marionnaud stores located in Europe and the Philippines.

Energy

In the 1980s, under Li Ka Shing's leadership, Hutchison intensified its investment into the global energy and infrastructure sector, recognizing that energy was a vital complement to its expanding business portfolio. Along with its interest in the electrical utility in Hong Kong, Hutchison operates power and gas distribution companies in Australia and the United Kingdom.

Most pertinent to Canada is Hutchison's stake in Husky Energy, a major player in the Canadian oil and gas sector and related services with an expanding foreign portfolio. Husky Energy has global interests, pursuing oil and gas exploration in the North Atlantic, the South and East China Seas, through its partnership with China National Offshore Oil Corporation, as well as offshore locations in Indonesia. In Canada, Husky Energy operates several offshore oil fields such as White Rose in Newfoundland and was a pioneer in the development of Alberta's heavy oil. While it currently holds major tracts of tar sands in Alberta where major projects are in development, Husky is also busy pursuing downstream activities in Canada and other countries refining, upgrading and marketing heavy and light crude and its byproducts.

"Husky Energy is an evolving energy story as the search and development of resources turns to more remote areas and more diversified and sustainable alternatives to fossil fuels," according to Sixt.

Photo: Courtesy of Hutchison Whampoa

Hutchison Whampoa's portfolio includes activity in ports, hotels, infrastructure and energy.

Adds Mike D'Aguiar, Husky Energy Treasurer, "What Husky faces is similar to what other energy companies are facing globally, a scarcity of suitable drilling rigs and a supply chain that is struggling to keep up with our demand." Husky has a central procurement office in Calgary where it pre-qualifies suppliers and assesses their ability to meet Husky standards for expertise and reliability.

Telecommunications

Telecommunications has been a principal focus of Hutchison. Through major divisions, like Hutchison Telecommunications International Limited (Hutchison Telecom), it has followed an aggressive growth strategy in 15 markets possessing good economic prospects and demographics. Sixt points out, "Our focus is on market leadership and technological advancement. We were one of the first major telecommunication companies to offer 3G (third generation) services, blending the interactivity and depth of the Internet with the convenience and freedom of mobile telephony."

As Adrian Raye of Nortel Networks, one of the principal suppliers to Hutchison Telecom notes, "Hutchison has very high standards and they are very demanding when it comes to technological performance. They lead their sector by continually reaching beyond current market requirements." Norm Lo of Research in Motion (RIM) agrees. "We have been able to partner very closely with Hutchison because we have similar strategies of dominating our sector and offering products at the high end of quality and reliability."

Sixt adds, "We are in constant communication with all of our suppliers including Nortel and RIM, exchanging data and information about the state of the technology as well as the potential future offerings consumers will want. It isn't always a question of new abilities but rather making current practices portable and accessible."

The decision to pursue technological leadership in telecommunications services requires massive financial investment in a highly competitive sector. "Building a subscriber base takes a significant amount of time and capital resources, but in many

Photo: Courtesy of Hutchison Whampoa

Hutchison has high standards when it comes to technological performance.

of our markets we are now past the stage of start-up losses and recording healthy returns," according to Sixt.

The company has been able to hedge its bets by assembling a balanced business mix. Sixt states, "Our current mix of operations gives us a large stake in mature markets such as Europe and Hong Kong where the infrastructure has largely been built but the IP network is evolving. At the same time we are fully investing in developing ICT infrastructure in emerging markets like Vietnam and Indonesia." The company's activities in expanding services for mature markets as well as developing the grass roots infrastructure in up and coming emerging countries open doors to Canadian exporters selling next generation Internet and mobile applications as well as technology related to complete telecom network build-outs.

Identified as one of EDC's strategic international buyers, Hutchison Whampoa and the scope of its operations brings a multitude of export markets to Canada's doorstep. "We have participated in at least two of Hutchison Telecom financings to date," according to Winston Kan, EDC's Chief Representative in China, "and are actively engaged in a dialogue to increase opportunities for Canadian suppliers."

While Canadian exporters must strive to provide the best value for money, successful marketing to Hutchison can extend the reach of even the smallest supplier worldwide. ■

INFORMATION:

Hutchison Whampoa Limited
www.hutchison-whampoa.com

A. S. Watson & Co. Limited
www.aswatson.com

ASW International Buying Division
www.eu.aswatson.net

Insurance & Financing Products for Exporters

The EDC Insurance Group recently developed and launched two new products: Single Buyer Insurance and U.S. Chapter 11 Buyer Risk Insurance. EDC has also created a new unsecured small-business loan program called EXPORT *Express Credit*.

BY SHELDON GORDON

Single Buyer Insurance

Single Buyer Insurance was launched in May to facilitate the transactions of occasional exporters. The policy covers single or repeat sales to a single foreign buyer for a six-month duration, up to a total of USD 250,000. "The product was introduced because of the need for a simple solution for exporters without ongoing export sales," says Sébastien Laroche, Manager, Product Development for the Credit Insurance Centre of Expertise.

"The great thing about this product is that it rationalizes the application process," he says. A company fills out a two-page application with details identifying the foreign customer and the amount of coverage sought. If EDC has the necessary credit information on file and the customer appears creditworthy, a policy can be put in place within 24 hours.

KWS Environmental Inc. of Kleinburg, Ontario is an early adopter of Single Buyer Insurance for the export of wastewater process equipment to the United States. "So far, it's been extremely efficient and seamless, so I am quite happy with the way the insurance has worked out so far," says David Dodsworth, President and owner of the company.

Another key feature of Single Buyer Insurance is that, as the name suggests, a policy covers only one buyer, whereas previous EDC insurance products sought pools of buyers to mitigate risk through diversification. The Single Buyer policy is therefore especially suited to companies that either are first-time exporters or are well established in, say, the U.S. market but wish to enter a new market in which they are not yet comfortable.

Photo: Courtesy of KWS Environmental Inc.

KWS Environmental used Single Buyer Insurance to export wastewater process equipment to the U.S.

Banks often consider this type of insurance as security against which they can lend a business more money under its operating line of credit. "It's an immediate solution to an immediate need," says Laroche. Companies will also appreciate that there is minimal administration required by the policy. "Once you've submitted your application and paid the premium, there is no further administration other than reporting any problem with the buyer."

A policy insures up to 90 per cent of a Canadian company's losses against non-payment after the customer has accepted the goods. Claims arising out of a customer's bankruptcy may be submitted immediately; claims stemming from delays in payment or non-payment may be submitted after four months.

KWS Environmental, which started up 2 ½ years ago, has done contracting work in Canada but has largely restricted its activity in the United States to consulting services. The company had not previously used EDC products, but Dodsworth's interest was whetted when he received EDC promotional flyers about the insurance.

Dodsworth is eager to transform his business from consulting to the design and building of wastewater treatment facilities and the supplying of materials. "I started initially with consulting, but it's fairly limiting – limited by how much time you have. As a sole proprietor, it is important to be able to increase the value of the projects that I take on." Nevertheless, he's been wary of providing more than consulting services to the U.S. market.

"It's difficult to get paid in the United States," he says. "My insurance broker had always advised me not to sell into the States. On my first export deal, I'm still waiting to get paid in full after a year and a half. I vowed I wouldn't do it again, but when I found this product available, I decided to try again on a small scale."

Now, on his second U.S. export deal, a $10,000 transaction with a customer in Colorado, he's relying on Single Buyer Insurance. "It was a good chance, with minimal risk, to try the product and see how it works. Obviously, the backing is important to me."

The U.S. customer has postponed delivery until September, and Dodsworth says that's "another useful feature of the insurance – the six-month duration." This is a one-off transaction, he adds, "but it could certainly help me make the decision [whether to] explore more opportunities in the United States. There are other factors, such as getting adequate insurance coverage for the business if I go into this. But certainly this is a concern that I had, and Single Buyer Insurance helps a lot."

U.S. Chapter 11 Buyer Risk Insurance

EDC has also developed a significant new product for Canadian automotive tool and die companies. U.S. Chapter 11 Buyer Risk Insurance was launched in July, and covers sales to certain Tier 1 automotive parts manufacturers that are currently in U.S. Chapter 11 bankruptcy protection.

Canada's automotive tool and die industry is coping with the fallout from the ongoing restructuring of the Big 3 North American automakers – General Motors, Ford and Chrysler – and the Chapter 11 filings of several of their key Tier 1 parts suppliers.

"This new insurance product covers qualified export tool and die contracts to Delphi, Dura Automotive, Tower Automotive and Dana Corp., all of which are in Chapter 11," says David Wu, Program Manager at EDC's Contract Insurance and Bonding Center of Expertise. "We are prepared to consider adding additional Chapter 11 Tier 1 suppliers to the list if circumstances warrant."

Canadian automotive tool and die makers, mostly based in Ontario, can purchase the insurance through EDC's regional account managers. "Although each policy does not have a maximum limit, we expect most of the tooling contracts will be in the range of $500,000 to $2-million," said Wu. "EDC can make the insurance available for either one-off transactions or to cover repeat business. The exporter is protected against non-payment whether its customer emerges from Chapter 11 as a restructured company, is liquidated or is acquired by a new owner."

This is the second product that EDC has created specifically to address the needs of the North American automotive sector. Last year, it developed the Insolvency Excess Loss Insurance policy to protect suppliers against the risk of bankruptcy by GM or Ford in Detroit. Automotive exporters can purchase a six- or 12-month policy covering their shipments to the OEM in the 60 days prior to the Chapter 11 filing. Such proceedings must begin during the policy's coverage period.

EXPORT Express Credit

Meanwhile, EDC and Mercantile Finance Services Ltd. have partnered to create a new unsecured small-business loan program called EXPORT Express Credit. The pilot project, begun in May, will continue until the end of 2007. This program was introduced to assist exporters that don't qualify for EDC's exporter guarantee program; are unable to access additional credit through a bank; or have depleted all personal resources. It targets small businesses with annual revenues of less than $5 million that wish to sell into foreign markets. The program provides unsecured loans of up to $50,000, with flexible repayment terms of up to two years. Borrowers need not pledge company or personal assets, and no penalties are imposed for early repayment.

The program allows companies flexibility on how they use the loans to grow their sales abroad. "A company can use its loan to cover specific export contract costs, fund a marketing program or purchase equipment," says Marc Beaulieu, Manager, Small Business Sales. The application process is streamlined, he adds. "Applicants don't need to submit a business plan. Approvals are based on a combination of credit scoring and financial statements, and the process can be completed in 24 to 48 hours. It's as simple as applying for a credit card. It's simple to apply for, simple to manage, simple to pay for."

Photo: © Glowimages/Getty Images

▲ Canadian automotive tool and die makers can purchase Chapter 11 Buyer Risk Insurance through EDC regional account managers, where the insurance can be made available for one-off transactions or repeat business.

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EXPORTExpressCredit
www.edc.ca/english/financing_export_express_credit.htm

Single Buyer Insurance
www.edc.ca/english/insurance_single_buyer.htm

Focus on the United States:

Rocky Mountain Region

Photo: © Bill Heinsohn/Getty Images

BY DENNIS AND SANDI JONES

Bounded on one flank by the Rockies and on the other by the plains of the American Midwest, the states of Montana, Wyoming, Colorado and Utah possess a character all their own. The region's people are independent, self-reliant and entrepreneurial, and have built an economy that embraces sectors as diverse as tourism, high technology and energy.

According to Statistics Canada, Canadian companies exported $12.6 billion worth of products to the Rocky Mountain region in 2006, including mining machinery, fertilizers, live animals, newsprint, softwood lumber, aircraft and aircraft parts, trucks and motor vehicle components, and rubber and plastics. But our single biggest export to the region, overshadowing the rest at $7.4 billion, was crude petroleum.

This appetite for Canadian oil reflects the scale of the local energy sector. "Energy is the boom industry of the Rocky Mountain region," says Monica Heron, Consul and Senior Trade Commissioner at Canada's Consulate General in Denver. "Colorado, whose population of 6 million makes it the largest of the four states, is a major energy and mining hub. Wyoming has only half a million people, but it provides 37 per cent of the coal consumed in the United States. Wyoming, Utah and Montana also show a lot of promise for oil and gas, and Montana has the country's biggest undeveloped coal deposits. But at the same time, all four states are very environmentally aware, and all of them are focusing on the development of renewable energy, including biofuels, wind and solar. These technologies can be of great interest to Canadian companies working in this sector."

From mines to medicine

But there's more to the region than energy; it's strong in life sciences, aerospace defence, information and communications technology, and a range of other industries. Utah's economy in particular is very diverse; the state manufactures furniture and sporting goods, has strong steel and mining industries, and provides banking and financial services. Utah and Colorado together present the best business opportunities in the life sciences, but Wyoming and Montana also have centres that are very active in this sector. In consequence, the consulate trade team has been working with numerous Canadian and U.S. medical institutions and companies to encourage collaboration on clinical trials and R&D.

Aerospace/defence is another priority sector for the trade team. Colorado is home to the Air Force Academy and Peterson Air Force Base, and to the headquarters of NORAD, Northern Command and Space Command. Their requirements attract not only prime contractors such as Boeing and Lockheed, but also subcontractors who may need Canadian aerospace technologies and services. Colorado is also very strong in information technology, since the state is a major player in telecommunications, broadcasting and related technologies. Utah is pushing IT as well, and the sector has come back very strongly since its steep downturn in both Utah and Colorado in 2001.

The trade team has been energetically promoting Canadian exporters since it opened its doors in late 2004. Earlier this year, it invited Utah Governor Jon Huntsman to lead a life sciences delegation to the University of Toronto's Medical and Related Sciences (MARS) complex; the delegation – which also included venture capital companies – participated as well in the BioFinance conference being held in Toronto. The mission's goal was to foster partnerships between Utah and Canada in human gene targeting, medical imaging and personalized medicine.

In another instance, the consulate took the Governor of Colorado and the mayor of Denver to meet Canadian business people in Calgary. "Because of that meeting," says Heron, "a Canadian investment company set up a business here and has hired 20 people. On the ICT side, a Canadian mission came to Denver in late 2005, and one of the businesses involved in the mission secured a contract within two months."

To achieve such results, the consulate works with many regional organizations. Among them are the Colorado Oil and Gas Association, the Intermountain Petroleum Association of Mountain States, the Colorado BioScience Association, the Utah Technology Council, the Advance Colorado Center, the Montana World Trade Centre, the Colorado Software and Information Association, and the Wyoming Business Alliance.

Ups, downs and doing business

According to Heron, the major problem for exporters to the region has been the strength of the Canadian dollar, which has adversely affected their competitiveness. In addition, the region's businesses and

With a population of six million, Colorado is the largest of the four Rocky Mountain states, and is a major mining and energy hub.

governments aren't clearly aware of the capabilities of Canadian companies, even though Canada is the biggest market for three of the region's four states. That lack of awareness, of course, is what the consulate trade team is working so hard to change.

The local business culture isn't a barrier, fortunately, although its distinctive characteristics have to be kept in mind. "People here consider themselves Westerners," says Heron, "and their way of thinking is much closer to that of Western Canada than of Eastern Canada. Westerners are very friendly and open, but you need introductions to the right people to get things done. Our role as trade commissioners is to put people together by giving them opportunities and places where they can meet."

The view from the ground

For smaller Canadian companies – including those operating outside the region's boom sectors – there's a great deal of potential here. Railcraft International, a leading manufacturer of aluminum railing systems for residential and commercial markets, is just such a firm.

Incorporated in 1985, Railcraft is based in Surrey, British Columbia and does about $15 million worth of business a year, half domestically and half in the United States. About 10 years ago, the company had established a solid distributor network in Canada, and began connecting with related U.S. firms at international trade shows. Those first contacts evolved into long-term business relationships with American dealers and distributors, and the company has now set up a U.S. sales arm, Railcraft USA LLC to support its business south of the border.

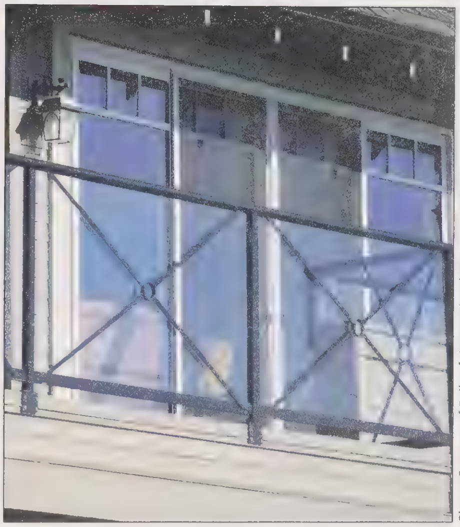

Photo: Courtesy of Railcraft International

Colorado is one of aluminum railing manufacturer Railcraft International's newer yet key markets.

Colorado is one of the company's newer markets. "We got started there when we bid successfully on a large job in Denver three years ago," says Ken Boyce, Railcraft's Chief Executive Officer. "Working with a major Denver contractor allowed us to build some strong relationships with business people there. They're very knowledgeable about the area's construction and commercial activities. Consequently, Denver has become one of our key markets."

Railcraft is constantly on the lookout for new U.S. opportunities, notes Boyce, but at the same time it's extremely careful in its choice of business partners. "If you want to make strategic alliances in the United States," he advises, "you need to pick the right people. You have to carry out a lot of due diligence and make sure that everyone has a very clear understanding of what's expected of them. Potential partners have to be experienced and mature in their market and know exactly how the business operates."

EDC has been involved with the company's export operations for a long time, and helped Railcraft secure their first Denver contract. "For that job," says Boyce, "we needed to put up a $250,000 bond. We did that through EDC, and they were great. We often need performance and payment bonds these days, and they'd be very difficult to get if we didn't have EDC behind us. EDC has also been insuring all our receivables for the past eight years, which protects us from customer insolvency. We use EDC for foreign buyer financing as well, so our U.S. distributors can obtain the cash they need to undertake a large contract with us. EDC offers us a lot, it's very proactive, and it's a service that's not available in the United States."

As the experiences of the consulate and firms like Railcraft demonstrate, the Rocky Mountain region promises an increasing range of possibilities for Canadian exporters. For a forward-looking and well-prepared company, entry into this open, innovative and expanding market can be an excellent strategy indeed.

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Africa
Open for Business

Photo: © Fridmar Damm/zefa/Corbis

Many countries in Africa are now growing their infrastructure and sectors such as transportation, telecom, aviation and natural resources are opening up, presenting opportunities for Canadian suppliers.

BY GLORIA LEVY

For too many years the word "Africa" to most North Americans has been synonymous with civil war, ethnic strife, economic collapse and endless poverty. This image is reinforced in our media which devotes almost no attention to African stories that don't fit received ideas about the continent.

Little time has been spared for understanding a continent composed of 53 distinct countries, each with its own unique culture and economy. But times are changing. War and turmoil still exist in some countries, but so do booming growth and a growing private sector in many others. It's now opportune to take the time to understand the differences within Africa and recognize the very real business opportunities there.

Some Canadian companies have established solid business links in Africa and are now poised to grow that business significantly. They have the experience, and understand that African markets are not for the faint of heart. They also understand the depths of the challenges a company can face, particularly in conducting business in a socially responsible way. However, these are markets that merit attention, particularly in the natural resources sectors where many countries are now seeking responsible foreign partners, but they require a more cautious approach.

"Generally speaking, the continent has made some strides in the past five to 10 years," says EDC Regional Manager for Africa Rizwan Haider. "Of course, there are large regional differences and many potential impediments to trade, but we're also seeing more democratically elected governments, the resolution of many wars, a surge in natural resource developments and growing private sectors in many nations – all of which are driving growth."

And Canadian companies would be wise to investigate these opportunities soon, Haider adds, given the increased competition from newly emerging markets such as China and India as well as Europe and the United States, who have been pursuing opportunities in Africa for some time.

As EDC's Regional Manager for Africa since 2006, Haider's experience includes 22 years on the continent with various financial institutions including the HSBC Group and Ecobank Group. Throughout this time, Haider has witnessed many changes to the business climate in Africa, one of the most notable of which is the increasing degree of inter-regional cooperation and economic integration, says Haider.

To date, Canadian companies have been involved with Africa, primarily through investments in the mining sector. In fact, Canada is the largest non-African investor in the sub-Saharan mining sector, providing the expertise needed to manage and develop African mineral resources. As of 2005, public Canadian companies held a staggering $5.9 billion in mining assets in Africa, and that number is forecast to increase to more than $14 billion by 2010.

And while companies such as SNC Lavalin, RSW, CPCS, Tecsult, Dessau Soprin, CHC Helicopters, and Canadian Bank Note are enjoying success on the continent, there is growing competition from countries looking to secure supply of natural resources, notes Haider.

"Many countries are now growing their infrastructure, and various sectors are opening up such as transportation and telecom networks, aviation, railways, human resources development, electricity, water, banks, insurance, exploration and production of oil and gas, so there are many opportunities for Canadian expertise."

In addition to linking with potential buyers of Canadian goods, Haider is currently building relationships with financial institutions in Africa, especially those with a regional focus, to provide financing to buyers of Canadian merchandise and services exports.

In 2006, EDC supported close to $2 billion in business volume, assisting 361 Canadian companies in 37 African countries.

For example, in order to increase Canadian involvement in sub-Saharan projects and across Africa, in May 2007 EDC signed an agreement with Rand

In 2006, EDC supported close to $2 billion in business volume, assisting 361 Canadian companies in 37 African countries

Merchant Bank (RMB) which permits both institutions to co-finance medium-sized transactions in various sectors across the continent. As the investment banking arm of FirstRand, one of South Africa's largest financial services groups, RMB will increase EDC's regional knowledge and its capacity to take on risk in sub-Saharan Africa. EDC and RMB have both committed up to USD 75 million on a risk-sharing basis. Using this arrangement as a launch pad, EDC can now partner with financial institutions to provide financing throughout the continent.

Private sector driving growth

In many countries, privatization is the current trend, particularly in sub-Saharan African countries. A more dynamic private sector is proving to be more efficient and effective at production and is attracting increased domestic and foreign investment for countries such as South Africa, Algeria, Nigeria, Kenya, Senegal, Cameroon, Botswana, Namibia and Ghana.

Kenya is seeing growth in mining, technology and training and opportunities in Ghana include transportation, waste management, sanitation, water purification and renewable energies. Solar power, training and engineering are expanding in Senegal and opportunities in Cameroon include river transportation and engineering – all areas where Canadians have expertise. Algeria also has several infrastructure projects in the works including the planned construction of close to 100 hospitals and 20 new dams to meet the country's water requirements for the next three decades.

South Africa, however, remains the biggest player on the continent. After many post-apartheid adjustments, the economy is maturing, there is a thriving resources sector, a well-established manufacturing sector, strong banks and financial muscle. As such, South Africa is going through a major investment program, particularly with respect to infrastructure. In the power sector alone, the country is now being confronted with shortages, presenting many opportunities for Canadian suppliers. And much of the population has integrated the economy, gaining a much higher earning capacity and generating a huge demand for consumer goods.

Case Study: South Africa and Telecom

South Africa has the continent's most sophisticated telecom network in terms of technology and services. Following a process of deregulation and liberalization, a second national operator was recently licensed to compete with Telkom SA, a partially government-owned telecommunications provider. This is opening doors for local telecom companies – and Canadian expertise – to provide services within the regulatory framework.

One South African company taking advantage of the expanded industry horizon is InnovatIF Telecoms. A distributor of wireless and communication solutions, InnovatIF is a subsidiary of The Innovation Factory, a holding company that assists foreign companies in penetrating the African telecom market.

InnovatIF and its sister companies have worked with several Canadian suppliers, notably DragonWave Inc., an Ottawa-based company that produces microwave equipment for high-capacity broadband wireless systems.

"South Africa has been a very challenging marketplace operating with stringent legislative parameters," says Anthony Mallett, CEO of The Innovation Factory. The new telecom entity is a great step forward and will enable our wireless broadband division to expand using DragonWave's technology."

DragonWave and InnovatIF started working together following the latter's first major venture, on behalf of Cameroon's national telecom and Internet service provider. "With the help of our contacts at EDC and the Canadian Trade Commissioner Service (TCS) in Johannesburg, we found the ideal supplier in DragonWave. The successful completion of that project led to another one in Mali, for which we needed a specific microwave product," explains Mallett.

Natural Resources

The main impetus for growth, however, is in developing natural resources, a fact which is drawing resource-hungry India and China to increase investments in many African countries.

Algeria, the world's fifth biggest gas producer, recently passed legislation aimed at giving foreign investors incentives for solar and nuclear projects. In addition, Sonatrach, Algeria's national petroleum company, plans to invest more than USD 40 billion in large-scale petrochemical projects over the next five years.

As one of the world's largest oil producers and one of the top emerging markets in sub-Saharan Africa, Nigeria is now keen to attract foreign investment, says Haider. Recent economic reform policies in Nigeria, including a debt-reduction plan, have led to favourable assessments by international bodies, which in turn have boosted investor confidence. Fitch Ratings, for the first time, assigned Nigeria a long-term foreign currency sovereign risk rating, grading it BB-, while Standard & Poor's gave the country a stable outlook.

Nigeria is an example of how quickly conditions in Africa can change. As recently as five years ago, this was a market requiring extreme caution, and EDC involvement was limited. Today, EDC no longer restricts itself from doing business in Nigeria. This year, EDC established two USD 25 million Lines of Credit with two Nigerian banks and signed Memorandums of Understanding with four other Nigerian financial institutions. "Our strategy for developing the Nigerian market is to facilitate short-term business with private sector buyers and use lines of credit with Nigerian partners to generate new medium- and long-term business.

Photo: Courtesy of CPCS Transcom

▲ Canadian infrastructure development consulting firm CPCS Transcom has enjoyed success in Africa, primarily due to a collaborative approach to local projects.

Positioning ourselves with leading Nigerian banks enables us to better support our exporters and investors in this market," says Klaus Büttner, EDC Regional Vice-President for Africa, Europe and Middle East.

Many might be surprised, however, at the growing potential in other countries such as the Democratic Republic of Congo (DRC), Mozambique and Angola, says Haider. "There are opportunities for seasoned Canadian companies to penetrate these countries, but they need to get in soon before it's too late," he cautions. Armed conflicts are largely over, and these countries are opening up for business, particularly within the resources sector. These are big countries with huge potential, notes Haider, and the business environment is getting better.

The DRC's mineral resources include half the world's cobalt and 10 per cent of its copper reserves and Angola is emerging as the second largest oil producer and exporter in sub-Saharan Africa, presenting opportunities for Canadian companies to help rebuild the infrastructure of the country.

Social responsibility challenges

Overall, the potential rewards for investing in Africa can be significant, but there are potential impediments to trade. "The high level of violent crime and the HIV/AIDS pandemic remain key challenges for investors as well as the government," says Haider.

CSR issues are a major challenge, adds Haider. "Political instability, human rights abuses, corruption and poor governance are present in varying degrees in different countries." In some cases it may be insurmountable, but in other cases, there are solutions, so due diligence is critical.

Take, for example, opportunities in the DRC. For years civil war and weak regulatory or institutional capacity rendered its extractive sector unpredictable and unproductive. What mining that did occur all too often involved inexperienced players often employing questionable practices. That situation has shown improvement recently, and the elected government is now trying to get a grip on the country's extensive natural resources to enrich opportunities and improve services. While the situation remains uneven, there are encouraging signs.

As per the Summer edition of *Exportwise*, this past May EDC brought together experts from the mining industry, academia, private and international financial institutions, non-government organizations and government to engage and solicit feedback on issues related to supporting extractive industries operating in post-conflict societies. For more information, please see www.edc.ca/Congoworkshop.

"In order to succeed, companies need to first acquire knowledge and contacts," stresses Haider. "And they need to be committed and prepared. Developing long-term partnerships and alliances is critical so participating in trade missions can be very worthwhile."

CPCS Transcom's inroads into Africa

CPCS Transcom Ltd., an infrastructure development consulting firm, knows the terrain well. CPCS specializes in the sustainable commercial development of ports, railways and roads worldwide, primarily in Africa.

CPCS has been active in Malawi, Mali, Mozambique, Nigeria, Sierra Leone, Sudan, Tanzania and Zambia – all countries generally perceived by commercial banks as high-risk. "EDC support has been essential in maximizing our financing," says Peter Kieran, CPCS President. "EDC accounts receivable insurance has provided CPCS with the financial resources necessary to undertake contracts in developing and emerging countries, including, for example, larger multi-year projects in Nigeria."

In addition to increasing financial capacity and reducing risks, EDC has played a major role in building relationships with potential clients. During trade missions to Africa, EDC offers flexible financing solutions to help Canadian companies and their international clients capitalize on trade opportunities. "Having EDC at the table when structuring a deal increases the comfort level of clients and ultimately helps to secure contracts in a timely manner," adds Kieran.

CPCS's success in Africa is partially attributable to the collaborative approach used in its projects. "We encourage the use of domestic consultants and capacity building," explains Kieran. "Developing relationships with local firms enables us to provide relevant solutions to national issues." CPCS also conducts study tours for government officials in several African countries, helping to secure business down the road. "These tours highlight international best practices, which ultimately assists in the decision-making process for infrastructure reform."

Overall, the continent of Africa represents significant business potential, says Haider. From what he's witnessed throughout the decades, the continent is definitely changing and is now, in many countries, open for business. ■

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Trade Commissioner Service
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TCS has 14 offices in sub-Saharan Africa that offer support and information to investigate market prospects, identify key contacts and market intelligence.

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EDC Foreign Representation:

Mumbai and Gulf Cooperation Council (GCC)

As Canadian companies are increasingly drawn to emerging markets as a destination for their exports and investments, EDC is expanding its network of global representations in these strategic locations.

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Mumbai, India

In order to help Canadian exporters and investors take advantage of accelerating growth in export, investment and partnership opportunities in India, EDC recently established a second permanent representative in the country, located in Mumbai, India's financial and commercial centre. Regional Manager Rajesh Sharma has been based at the Canadian Consulate General in Mumbai since September 4, 2007.

Mr. Sharma worked for the Export Import Bank of India in Mumbai from 2001 to 2007. During his tenure there, he held key roles in business development, client account management and project operations, most recently as Chief Manager, Corporate Banking Group.

Sharma will work closely with EDC's Chief Representative in India, Peter Nesbitt, based in New Delhi, to develop relationships and partnership opportunities with local banks, companies and intermediaries in Mumbai and Western India. He will also collaborate with Canadian Consulate General officials, local chambers of commerce and key industry associations, and provide market intelligence to EDC customers.

Since the opening of the New Delhi representation, EDC-facilitated trade and investment with India grew from $375 million in 2005 to $730 million in 2006. As of August 31, 2007, this volume was already more than $690 million.

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Abu Dhabi & the Gulf Cooperation Council (GCC)

Oil windfalls and government spending throughout the GCC are creating unique opportunities for Canadian business. To better serve Canadian companies in this region, EDC is establishing a new overseas representation in Abu Dhabi, United Arab Emirates (UAE) as a base for serving all six countries of the GCC and Yemen. The GCC is the political and economic union formed by the UAE, Saudi Arabia, Oman, Qatar, Bahrain and Kuwait. Jean-Francois Croft will be EDC's new Chief Representative for the GCC and Yemen.

Prior to this appointment, Mr. Croft served as EDC's Regional Manager for North Africa and the Middle East, providing market intelligence and developing relations with buyers, borrowers, local banks, regional banks and governments. In this capacity Croft contributed to EDC's increased business success in North Africa and the Middle East, where his portfolio accounted for more than $2.3 billion in EDC emerging market business volume in 2006.

As of August 31, 2007 EDC facilitated $832 million in Canadian exports and investments to the GCC region. The establishment of this representation will allow EDC to increase its assistance to Canadian exporters and investors doing business in the GCC. Specifically, Croft will promote Canadian capabilities and EDC's financial solutions to GCC customers and provide support to Canadian exporters and investors active in the market. EDC will continue to build partnerships with key financial intermediaries, and will look at increasing its participation in alternative financial structures such as Islamic financing. ■

Photo: © Ron Watts/Getty Images

Are West Coast Ports in Trouble Again?

BY PETER HALL

Are ports prepared for the continued expansion of global trade? High-growth exporting countries are constantly aware of the future pressures their infrastructure will be under. As such, aggressive expansion plans are underway. China alone has multi-billion-dollar investment plans that, if realized, will increase container capacity by just under 8 million TEU each year through 2011. Add to this other regional expansions and India's export aspirations, and the tally rises to almost 14 million TEU per year.

Will ports in the rest of the world keep up? 2005 saw a flurry of investment in developed economies' ports, adding over 10 million TEU of capacity in short order. A good chunk of this was U.S. expansion, and Western Europe also added significant throughput. But since then, investment growth has moderated, with expansion in 2007 at just half the 2005 pace. Developed economies are currently adding capacity at half the rate of Asian ports. The imbalance is frightening, but is not as bad as it sounds. Intra-regional trade in Asia is significant, so a good share of the addition will support those flows. However, according to the World Bank, 85 per cent of the goods that are produced for final sale in Asia are headed for developed economies – consumers in Asia are still not the powerhouse that they are in the developed world. As such, these numbers alone indicate a significant port capacity imbalance.

How will North American ports fare? In short, get ready – the Grinch is coming back. The fabled killjoy last struck transportation channels in 2004 when North Americans were staring down a bleak holiday season, with slim pickings under everyone's festive trees. It wasn't for lack of purchasing power – consumers were in good shape, coming off a year of stellar global growth that fattened wallets considerably. West Coast ports – the entry point for the bulk of Asian goods we consume – were jammed solid, and retailers were panicking. He's using the same strategy again, and it looks like it may be as effective – or worse still, more effective – than it was in 2004.

Heady growth like we saw in 2004 is hard for transportation networks to keep up with. At the time, most modes of transport contributed to the traffic jam. Ships were in short supply. Rail systems were oversubscribed, stranding containers on docks. And clogged highways prevented truckers from coming to the rescue. Cargo handlers seemed hard to come by. And as containers piled up in ports, laden ships idled in harbours, sometimes for weeks.

Clearly a crisis for a just-in-time world. Facing long port lineups, shipping companies diverted their West Coast cargoes through the Panama Canal to less busy Gulf and East Coast ports. Los Angeles-Long Beach (LA-LB), the largest West Coast port by a wide margin, hired thousands of new cargo handlers. Smaller West Coast ports embarked on aggressive expansion plans. American railway companies committed $8.1 billion to new tracks and additional equipment. Through 2005, back-orders of rail cars reached their highest level since 1979.

The collective investment was impressive, and has staved off capacity problems – for now. North American ports operated smoothly through the pre-holiday buying seasons in 2005 and 2006, in spite of solid trade growth. Moreover, the freight

Developed economies are currently adding capacity at **half the rate** of Asian ports.

Port of Vancouver, British Columbia

Photo: © REUTERS/Claro Cortes IV

A container ship on the Huangpu River in Shanghai China's business capital and the world's third busi[illegible] container port.

industry has repeatedly assured U.S. politicians that logjams will not recur. So far, so good.

Slowing global growth will also take some of the pressure off. But will it keep the Grinch at bay? Not likely. Forecasters generally agree that global growth will slow, but even so, the pace will still be robust. EDC's forecast calls for the world to churn out average growth of 4.7% over the next two years, above its long-term average performance. The deceleration will be enough to shake world markets – but growth in international trade will still ring in at double the pace of GDP. And Asian markets will continue to expand well above the global average, powered by China and India.

Given current trade flows, a large chunk of Asian containers will end up on U.S. shores. Los Angeles-Long Beach is critically important, as it is the entry point for 80 per cent of all U.S. imports from Asia. However, post-2004 additions to capacity have been uninspiring. Less than a million TEU have been added each year, and including plans for 2007, average annual growth is just 6%. Extra hiring has helped, but productivity at the port is a fraction of the Asian average, even after accounting for trans-shipments. And, to handle present and future flows, estimates put the investment tab for the port's rail and highway systems at $20-$25 billion.

At best, this investment will only be partly met. The next large expansion at the port is scheduled for 2010, but it pales in comparison to large expansions in Asia. Significant funds will be diverted in the near term to security refits and ongoing maintenance activities. Concerns about air pollution emanating from the port have led municipal authorities to threaten a moratorium on all planned expansion. In addition, public funds are likely to be tight, and private investment has been stymied by the Dubai Ports World debacle.

Other U.S. ports are not expected to step up to the plate. Diversion of LA-LB traffic was a short-term stop-gap measure, but due to their small size, other West Coast ports clogged up quickly. They added considerably to their capacity in 2005 and 2006, but future expansion plans are modest, as they are limited by available space. For the most part, East Coast and Gulf ports are similarly constrained, and generally have modest future expansion plans. Moreover, the Panama Canal, itself a choke-point, won't be accessible to the new, larger container ships for about 10 years.

Desperate to avoid a repeat of 2004, American shippers and importers are looking beyond their borders for a more continental solution. And they are looking at a different port model. Conventional wisdom argues that successful ports are built around a thriving local market. But in 2004, those local markets impeded the broader reach of the imported goods thanks to road and rail congestion problems. Investors are now looking at unencumbered locations – good, natural deepwater facilities with small domestic populations and quick passage into the heartland.

Canada stands to gain from this new approach. The Asia-Pacific Gateway and Corridor Initiative has committed about $1.1 billion of federal and provincial government funds to facilitate the movement of goods to and from key Asian centres. Among other things, the initiative supports an increase in freight capacity at British Columbia's ports of 5 million TEU through 2020, a significant addition to total West Coast capacity.

Along with expansion of the Port of Vancouver, a key element of the initiative is development of Prince Rupert, a low-maintenance, deep-water port with large capacity potential. Prince Rupert fits the new model: free of local congestion, freight can reach U.S. Midwest cities as quickly as from LA-LB, despite the considerably longer distance. And Prince Rupert is two days closer to Asian ports by sea. Leases are signed, and expansion is underway. Initial capacity of 500,000 TEU will be in place this year, and is projected to rise to 2 million TEU in the medium term.

The Grinch may yet have his day, but there is a bright side: Canada is putting capacity in place that is sure to be well used when crunch time arrives. There will be some competition, though. Mexico is also exploring development of remote ports with quick access to the U.S. market, although the proposals appear further from realization. And U.S. ports could decide to ramp up investment activity. But with careful planning and timely investment, the prospects for Western Canadian port activity are bright. ■

Peter Hall is Vice-President and Deputy Chief Economist at Export Development Canada, and oversees economic and political risk analysis at EDC, in addition to frequently addressing business audiences across Canada on economic and industrial issues.

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

Insurance

Are you sure your U.S. or foreign customer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **www.edc.ca/insurance**.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than 100 million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

Do you need to make a claim?

EDC has an online tool called eExpress Claims that Accounts Receivable Insurance customers can use to file claims up to $5,000. To access this tool, register with EDC Direct, the customer-only section of EDC's website, by calling your underwriter or the EDC Help Desk at 1-888-649-8287 weekdays from 8 a.m. to 6 p.m. EST. For claims above $5,000 and general claims information, call one of EDC's Claims Services Managers at 1-866-638-7946 or visit us at **www.edc.ca/claims**.

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All dollar amounts indicated are in Canadian dollars unless otherwise specified.

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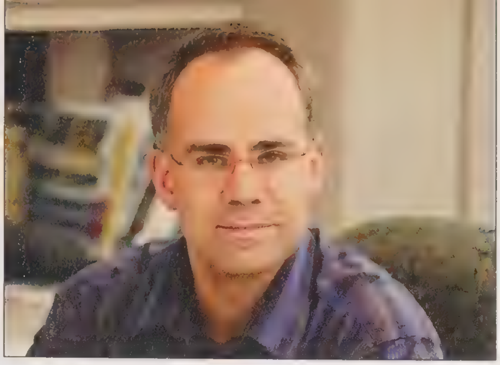

From the Editor

Michael Toope,
Editor
mtoope@edc.ca

Increasing transparency at EDC

On September 1, 2007, the *Federal Accountability Act* came into effect, making EDC and other Crown corporations subject to the *Access to Information Act*. This is a significant and positive change for EDC, and one that we believe builds on the spirit and practice of our own disclosure policies. As a result, more information on EDC will be accessible to the public, moving the Corporation to a far greater level of transparency.

The changes represent a necessary balance between increased openness about EDC's administrative operations and respect for its customers' commercially confidential information. Section 24 of the *Access to Information Act* exempts EDC from the disclosure of third party information, in recognition that EDC possesses a wide range of commercially confidential and proprietary information that is entrusted to us by others as well as that which we produce ourselves. Canadian exporters and investors can be confident that their information is secure and they can continue working with EDC on their trade and investment opportunities without fear their information will be exposed.

OECD guidelines for export credit agencies on the disclosure of transactions with potential environmental impacts were recently revised. Following the signing of transactions, EDC will now be requesting permission from its customers to disclose information about Category B projects. The information to be disclosed will be identical to EDC's disclosure of Category A projects since 2001. These changes to disclosure practices affect relatively few customers; EDC signed 11 Category A and B transactions in 2006.

Highlights from the Winter 2008 edition

Transformations in ICT

Change is constant in ICT industries, lately driven by convergence, M&A activity, outsourcing and offshore production. We'll look at how some Canadian companies are navigating these changes.

Starving for energy in Chile

Chile's demand for energy for industrial and residential use risks outstripping supply, prompting investment in traditional fuels and renewable energy sources.

Biotechnology boom in Singapore

Investments by the Singapore government and by domestic and international private sector companies are turning the country into a global hub for developments in this industry.

Trade Resources

A list of associations and government agencies dedicated to helping Canadian businesses succeed.

Federal Government Agencies

Business Development Bank of Canada (BDC):
www.bdc.ca

BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

Virtual Trade Commissioner:
www.infoexport.gc.ca

Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner. This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC.

Canada Business:
www.cbsc.org

Canada Business reduces the complexity and burden of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements for business.

Canadian Commercial Corporation (CCC):
www.ccc.ca

The CCC's mission is "to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions."

Canadian Consular Affairs Bureau:
www.voyage.gc.ca

The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

Foreign Affairs and International Trade Canada:
www.international.gc.ca

Foreign Affairs and International Trade Canada supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful and secure world.

Team Canada Inc.:
www.exportsource.ca

Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

Provincial Government Agencies

ALBERTA

Trade Team Alberta:
www.alberta-canada.com/tta

Trade Team Alberta [TTA] is a partnership of the Governments of Canada and Alberta, working together to enhance international business opportunities for Albertans.

MANITOBA

MTI: Manitoba Trade and Investment:
www.gov.mb.ca/trade

Manitoba Trade and Investment's mission is to help build the Manitoba economy through increased exports as well as to attract and retain foreign direct investment.

NEW BRUNSWICK

Business New Brunswick – Export Development Branch:
www.gnb.ca/0398/export/index-e.asp

Business New Brunswick's Export Development Branch specializes in providing one-on-one counselling and specialized services to export-ready companies and existing exporters.

NEWFOUNDLAND AND LABRADOR

www.gov.nf.ca/doingbusiness

A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

NOVA SCOTIA

Nova Scotia Business Inc.:
www.novascotiabusiness.com

NSBI offers a number of export development programs and services that assist small- to medium-sized businesses and local exporters entering new markets.

ONTARIO

International Trade Development:
www.ontarioexportsinc.com

The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

PRINCE EDWARD ISLAND

Prince Edward Island Business Development:
www.peibusinessdevelopment.com

The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

QUEBEC

Services for businesses:
www.entreprises.gouv.qc.ca

Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

Investissement Québec:
www.investquebec.com/en

Original and flexible, its financing products work for companies, cooperative businesses and non-profit organizations at every stage: start-up, expansion, export, R&D activities, merger and acquisition.

Contacts

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398.**

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777.**

SASKATCHEWAN

STEP: Saskatchewan Trade & Export Partnership:
www.sasktrade.sk.ca

STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

Associations

Canadian Manufacturers and Exporters:
www.cme-mec.ca

Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels. Its mandate is to promote the competitiveness of Canadian manufacturers and enable the success of Canadian goods and services exporters in markets around the world.

Canadian Chamber of Commerce:
www.chamber.ca

As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

Canadian Federation of Independent Business:
www.cfib.ca

CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector. Taking its direction from CFIB members through regular surveys, CFIB lobbies for small- and medium-sized businesses at the federal, provincial and local levels of government.

Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **www.infoexport.gc.ca**.

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COUNTRY FEATURE: SPENDING TIME IN RUSSIA | CANADA'S CHICAGO TRADE MISSION

EDC'S MAGAZINE FOR CANADIAN EXPORTERS

WINTER 2006

ExportWise

WWW.EDC.CA

How Canada Stacks Up in Telecom

INSIDE

The Economic and Political Transformation of Central Europe

Avoiding Border Delays

DAC Aviation: Flying Aid Missions in Africa

Getting a Grip on China

Rob Wright
President and CEO

Despite two decades of rapid growth in China, Canada has been slow to adapt to this market in a significant way. Canadian goods exports to China reached approximately $6.4 billion in 2005. Add service exports such as engineering, financial and tourism services, and the total increases to around $7.2 billion. But this pales in comparison to the estimated $455 billion for total Canadian goods and services exports in 2005.

Given China's size and rapid growth, Canadian companies should be taking full advantage of opportunities to match our technical and managerial skills to the needs of China. Canada's presence is weak in comparison to the success companies from Germany, Australia and the United States have gained through investing in high quality manufacturing facilities in China and integrating them into their global supply chains.

I appreciate that penetrating the Chinese market requires significant upfront time and money to develop the right relationships and negotiate transactions. And, I understand that the risks, ranging from a lack of transparency to an underdeveloped legal system, may be too great for some exporters to bear. But it is important that we collectively take on these risks and challenges and I see EDC as being a key player in the process.

China has been a priority market for EDC for years. Our permanent EDC representative in Beijing reflects our commitment to the market and we work very closely with our Canadian Government colleagues to facilitate both trade and investment in China. In 2005, EDC facilitated $2.3 billion in export and investment transactions in China, on behalf of more than 250 Canadian companies.

EDC products including accounts receivables insurance, contract insurance and bonding, and financing are helping Canadians to mitigate risks, access working capital and match their competition in sectors as diverse as forestry, energy, telecommunications, advanced technology and environmental applications.

> We are **committed** to increasing our **support** for Canadian investment **in China** where there is a clear **Canadian benefit**.

We are also committed to increasing our support for Canadian investment in China where there is a clear Canadian benefit. EDC is focused not only on how to help facilitate new Canadian investments but also on how to help Canadian companies grow once they are established in China. For example, Canadian affiliates exporting from China will be helped by our new co-operation with Sinosure, China's export and credit insurance corporation. This arrangement will allow subsidiaries of Canadian firms to access accounts receivables insurance and bonding support and facilitate their access to working capital from local banks.

Through our permanent representative and sector team approach we are drawing on new sources of credit information and approving an increasing number of Chinese buyers through our accounts receivables insurance program. We are also developing relationships with key creditworthy Chinese buyers and leveraging our services to present new opportunities for Canadian suppliers.

While EDC has been growing its portfolio of business in China, there is great potential to do more. In this context, we recognize the need to evolve our services and risk capacity to adapt to the changing needs of our clients. I can assure Canadian firms that we are increasing our knowledge of and level of comfort with the full range of risks - credit, legal, social, environmental and reputational - associated with doing business in China. We are intent on stepping up our support for Canadian firms and their Chinese partners as we move forward.

My visit to China last fall reminded me of the genuine and enthusiastic goodwill the Chinese have for Canadians. They want to build stronger ties with us as evidenced by the flow of trade delegations to Canada including the 2005 visit by President Hu Jintao.

The test of our success will not be whether the Chinese like us, but whether we are doing deals in our areas of common interest. If you are already doing business in China or thinking of entering that market, talk to us; we can help. ■

Rob Wright
President and CEO

CONTENTS

ExportWise

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RETURN UNDELIVERABLE CANADIAN ADDRESSES TO
CIRCULATION DEPT.
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2750 SHEFFIELD ROAD
OTTAWA, ONTARIO K1B 3V9
email: mds1@bellnet.ca

DAC Aviation

Mercy Mission: Possible

He wanted to be a doctor but dreamed of flying. Rather than choosing between the two, Emmanuel Anassis combined his love for both into what is today a highly successful aviation company that is quintessentially Canadian.

BY BRENDA BROWN

"I don't think many people realize what it means to be Canadian until you've been in a life or death situation, flashed your passport and seen the profound change in attitude. We're known throughout the world as peacekeepers, defenders of democracy, humanitarians first and foremost. If we have one fault, it's how modest we are about how highly regarded we are in the world."

Anassis knows of what he speaks. He has spent the last 15 years flying mercy missions in Africa where he says you live a roller coaster of emotions – from miracles to tragedies within a day.

It began during his second year of medical school, when he decided to take a 20-minute sight-seeing tour of the Sir Wilfred Laurier Campus. Anassis was hooked and immediately signed up for lessons. He started working for a small outfit flying people and cargo across Canada and into the north where he developed a reputation for flying safely into remote areas and keeping his customers happy. In 1990, a friend recommended him for a job in Kenya, Africa organizing and flying mercy missions for a Miami-based company with a contract from the Red Cross.

He went there on a three-month contract and stayed even after the company went bankrupt. "They were in over their heads and wanted to return the airplane that I was flying back to the leasing company. I'd developed a strong network by this time and although I didn't have any capital to back me, I convinced an outfit in London, England to lend me $300,000. And they did, based on one phone call."

Anassis brought his wife and one-year-old daughter to Kenya in 1991 and established Trident Aviation with that same leased airplane. Although his base of operations is in Kenya, where he has his operating license and hangar facilities, his operation touches all corners of Africa, including Ethiopia, Congo and Somalia. In 1995, he established DAC Aviation in Montreal (parent company to Trident) to establish a repair and overhaul facility to service his growing fleet.

"Africa has little infrastructure and you can't operate efficiently. Even the simplest things like sending a fax can be a nightmare. I needed to establish a Canadian base where I could get the parts I need quickly and easily and make the repairs required."

He also wanted his family to experience the best the world has to offer. "I've seen the worst of humanity, so I wanted my children exposed to the best. We are so privileged and I wanted to come to Montreal – the Mecca for Canadian aviation – establish a successful business, create jobs and give back to the country that has given me so much."

Establishing a base of operations in Montreal was also a way for DAC to work directly with its suppliers and build closer ties with government agencies such as EDC, created to support Canadian entrepreneurs.

"I was in negotiations with Bombardier, who recommended EDC. Aviation is a capital intensive business and we'd never had a loan before, so it was hard to raise the money required. Once EDC came on side, other traditional lenders became interested. We now have eight airplanes in the air and hope to have 15 by the end of 2006, and we can use that as leverage to win more business from our customers."

"Once EDC came on side, other **traditional lenders became interested.** We now have **eight airplanes** in the air and hope to have **15 by the end of 2006**, and we can use that as leverage to **win more business** from our customers."

Bobby Mall, a Financial Services Manager with EDC's Aerospace Team, says in order to assist in the purchase of the first aircraft by Trident, EDC lent the needed capital to the Eastern and

Southern Africa Trade and Development Bank, a regional bank in Africa which, in turn, lent the funds to Trident. Using this on-lending structure allowed Trident to conclude the deal with Bombardier.

EDC then moved into negotiations to fund the purchase of another airplane following the same process. "Once we had established a solid track record with the exporter, the next step was to lend money directly to Trident, which we did to fund the purchase of three more aircraft – bringing the total to five in one year."

Mall says this is a win/win for all involved. "It's a Canadian company, flying Canadian planes for the United Nations World Food Programme and other humanitarian agencies such as the Red Cross, in a part of the world where people sorely need our help."

As well as ensuring that food, medical aid and supplies reach those in need, DAC also provides a unique domestic airline service in Africa complete with attendants and meals. "The fact is that dignitaries, journalists and aid representatives need access to the remotest regions of Africa, where there are no air strips and terminals and it's too dangerous to drive. They want to ride in relative comfort with people who have a proven track record of getting in and out of remote places quickly and safely. This is the service we provide."

But Anassis hasn't forgotten his roots. "We're here to help the people of Africa. Despite the dangers involved and the human tragedy we see, we have also witnessed acts of unbelievable bravery and human kindness, which makes it worthwhile."

One particular job that he recalls with pride is a program organized by UNICEF to reunite families torn apart by the war in the Sudan, where children fled into the bush to escape forcible conscription by the rebel and government armies.

"It's a Canadian company, flying Canadian planes for the United Nations World Food Programme and other humanitarian agencies such as the Red Cross, in a part of the world where people sorely need our help."

"UNICEF located the children and brought them to one central, secret location. We had about 130 kids on each flight and when we landed there would be a sea of parents waiting. They were able to pick out their kids after all those years – some up to 10 years – and the looks of joy on their faces is something that I will never forget," says Anassis.

"There is no question that we have made a difference. But the real heroes are the people from the United Nations and agencies such as the World Food Programme and the Red Cross; these are the ones on the ground 24/7, bringing hope to the near-hopeless."

Looking forward, Anassis only sees more blue skies. "My business is based solely on what's happening in the world. If there is a famine, we will be there. But you can't predict these things and eventually, famine ends, wars end. So the question is: how do I keep my business going over the longer term?"

For Anassis, the answer is to continue flying mercy missions, build his passenger airline service and leverage the repair and maintenance side of his business in Canada. From its Montreal facility, DAC is developing a commercially viable super-hard, thin film coating to protect the inner aircraft components and increase service life, especially those aircraft flying in dusty, dry climates.

"There's huge market potential for this new product, up to $2 billion annually. The key is to keep moving forward, keep looking for new mountains to climb. I surround myself with people who believe in that, who thrive on keeping their creative juices going. That way, we will continue to come out on top."

DAC Aviation provides much needed supplies to people in need.

Avoid Potential Border Delays: Join C-TPAT

BY COURTNEY TOWER

They came to learn and trade experiences and misgivings about one subject uppermost in their minds. Exporters and importers, customs brokers and freight forwarders, gathered from across Canada at the 74th annual convention of the Canadian Association of Importers and Exporters (I.E. Canada) in Toronto last October wanted to know: Should we invest in cross-border security programs? What are the risks if we don't invest and what are the costs if we do? Do the benefits fit the costs?

Delegates wanted to be able to advise their management on the benefits and costs of signing on to United States and/or Canadian supply chain security programs. At the end of the three days, the experts were convincing: Pay the piper or risk costly border delays getting into the American market.

CUSTOMS-TRADE PARTNERSHIP AGAINST TERRORISM

In fact, more and more U.S. importers require suppliers to join the U.S. program Customs-Trade Partnership Against Terrorism (C-TPAT), in order to get their business. Membership enables exporters to get through the border on a preferred basis during normal times, and lets them pass through in "red alert" times while others must wait.

While a similar Canadian program, Partners in Protection (PIP) exists, the general consensus from the American perspective is that joining PIP isn't good enough. In fact, experts agree that Canadian suppliers should think seriously about joining C-TPAT as well, if much of their exports travel south.

Many big exporters/importers have done so, but the smaller and middle-sized companies have been slower to understand the benefits. Isabel Alexander, Chair of I.E. Canada, believes that Canadian exporters who are eligible to join C-TPAT (most are, as non-resident importers), should do so. Alexander owns Phancorp Inc., a wholesaler of industrial chemicals, with annual sales of about $11.5 million. From Brampton, Ontario, Alexander scours the world for chemicals from producers with the right quality, price and logistics appeal for her clients in Canada, the United States and elsewhere.

"It's true that the return on investment is not so tangible," she says. "But there is just no choice. We're being regulated into this, and I think it is the best practice. Once you look at these programs and see that, for the most part, they are pretty much common sense, then implementation isn't such a challenge."

Alexander reflects a basic business realization, echoed by the panelists, that U.S. security regulations on trade are only going to become stricter. The United States continues to demand that every possible security hole be plugged. "The anxiety level in the United States is probably as high as it was at 9-11," observes Birgit Matthiesen, from the Canadian Embassy in Washington.

More and more U.S. importers are requiring suppliers to join the U.S. program Customs-Trade Partnership Against Terrorism (C-TPAT), as a condition of getting their business.

SECURITY IS FOREMOST

In fact, Canada and the United States have transformed their revenue-collecting customs services into agencies where security is foremost. Both C-TPAT and PIP require screening and pre-approval of traders, carriers and drivers. They also require importers and carriers to implement security precautions including fencing, lighting, camera-monitoring, personnel-checking, security staff training and electronic systems controls.

A police officer monitors truck traffic along Huron Church Road in Windsor, Ontario.

In addition, membership in C-TPAT or PIP is required for the bi-national clearance program Free and Secure Trade (FAST). Pre-screened, low-risk traders, carriers and drivers get speedier passage through exclusive customs booths and "FAST" lanes, where available. C-TPAT is being toughened, with hard new details replacing vaguer objectives. Troubling for many small or medium potential members is that they will have to verify that their vendors, carriers and warehousers meet the same standards. And the U.S. Customs and Border Protection (CBP) agency states that shippers/carriers not in C-TPAT can expect long waits.

BORDER DELAYS COST MONEY

Expensive rigs are on down-time. Customers await their cargoes. Hard-to-get drivers, paid by the trip and not by the hour, are frustrated and look elsewhere. Just-in-time customers may impose penalties for delays. For these reasons, and particularly because CBP says that those not in C-TPAT will sit, the U.S. program looms as being, in effect, mandatory.

Many Canadians agree. "C-TPAT is not going to be voluntary, and will be more stringent," says Tracey Speares, Manager of Import Compliance for Winners Merchants International in Canada. Candace Sider, Director of Customs and Trade for the Canadian customs broker-logistics firm, PBB Global Logistics, observes that, increasingly, U.S. customers "are only prepared to do business with companies that have made the investment in joining C-TPAT." And in times of a terrorist event, real or anticipated: "if you are not in C-TPAT, in all probability, your cargo is going to stop."

HOW CAN CANADIANS JOIN A U.S. PROGRAM?

Canadian truckers, because they haul trade both ways across the border, are permitted to join C-TPAT. In addition, about 75 to 80 per cent of all trade from Canada going into the United States is cleared through U.S. Customs by the Canadian exporter. The Canadian exporter, known as the Importer of Record, is responsible for all logistics, including clearing the U.S. Border, on shipments going to a U.S. customer.

As such, the Canadian exporter, by signing U.S. Customs commitments, is considered a U.S. non-resident importer, says Barry Frain, part of Winnipeg customs broker and logistics consultancy, Supply Chain Security Canada Inc.

"Canadian exporters take on all the U.S. importer's obligations of advance reporting of shipments and now for C-TPAT, security back through their own Canadian supply chains."

The burden is not as heavy as it may appear, Frain adds. "Not every supplier has to be considered for compliancy," he says. "For example, if you buy products that are inputs into a product that is assembled or fabricated in your own secure premises, you are not required to validate that supplier."

IN SUMMARY

Those who compare the costs and benefits of Canadians joining C-TPAT or PIP typically list the following:

Costs of being in: providing or improving physical security of buildings, plants and yards; access controls; electronic tracking and monitoring systems and controls; having and training security staff; checking personnel. There can be cost and friendly-relations issues in verifying that your suppliers, carriers and others are in PIP or C-TPAT or take provable precautions.

Costs of not being in: the various costs of delays, sometimes very long, at the border; more scrutiny by U.S. Customs inspectors; no access to "FAST" lanes or booths; higher transportation and logistics costs; the possibility of being denied access to the United States should there be another terrorist event.

Benefits beyond cost-avoidance: brand protection – your reputation as a good corporate citizen. You keep on trucking, when others may not or go more slowly. Border inspections are reduced. You are qualified to work with other C-TPAT-certified participants. By increasing your own security, you reduce the cost of cargo theft and damage. By improving your internal processes and controls, you are employing good business practices which make you more efficient and save you money.

There is one additional, and growing, pressure coming from U.S. customers. The United States government, through the CBP, is encouraging American importers to deal with Canadian (and other) companies that are C-TPAT compliant. Some are saying, even to long-time suppliers, join C-TPAT or lose our business. ■

About the Author

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GET MORE INFORMATION

Canadian exporting regulations: **www.cbsa.gc.ca/sme/menu-e.html**. Then, click on *Exporting – A Step by Step Guide*.

Similarly, *Exporting to the United States* by Team Canada Inc.: **www.ExportSource.ca**. For these purposes, Sections 9 and 10.

For Canada FAST: **www.cbsa.gc.ca/import/fast**.

For PIP: **www.cbsa.gc.ca/general/enforcement/partners**. (And, especially, click on *Frequently Asked Questions*.)

For U.S. importing: **www.cbp.gov**. Click on *FAST* (under quicklinks), then on various sections. Also, **www.cbp.gov/xp/cgov/import**.

For U.S. C-TPAT, **www.cbp.gov**, click on *Border Security*, then on *C-TPAT*. Click on various sections from *C-TPAT Application Process* to *Security Criteria for C-TPAT*, *Importers* to *Validation Process* and *FAQs*.

Canadian Association of Importers and Exporters (I.E. Canada): **www.importers.ca**.

Getting FITT
for International Trade

BY TERRI-SUE BUCHANAN

How do you decide which markets to enter? What do you ask your legal expert when you're drawing up a contract? When do you decide to hire an agent versus a distributor? How do you get over cultural barriers?

Most business degrees do not prepare you for conducting business outside of Canada. As a national, not-for-profit organization, the Forum for International Trade Training (FITT) goes beyond the theory, through its practical international trade training programs and services, to ensure continued professional development in the practice of international trade.

"The recognition of international trade as a profession is growing," says FITT President Caroline Tompkins, "and the specialized knowledge required is growing in tandem."

FITT programs are designed for people working in small- and medium-sized businesses that are involved in, or planning to engage in, international business. "Those who take the program generally assume a variety of roles within their organization," says Tompkins. "These people need a general overview of international trade. For medium-sized companies, they could be export advisors, sales and marketing managers, or logistics managers – the training really crosses all occupations."

Specifically, through its Certified International Trade Professional (CITP) designation, FITT is creating generalists in international trade, where they learn the broad strokes of the global business environment, international trade readiness, sales and marketing in international trade and how this differs from the domestic market.

As Canada's only professional designation available to international trade practitioners, its profile within Canada is growing. In fact, Canada was the first nation to offer such a designation.

Richard L'Abbé, past CEO of Ottawa-based Med-Eng received his CITP designation in 2000. Med-Eng designs and manufactures Personal Protective Equipment, which it supplies to more than 140 countries. Med-Eng now has several FITT students and graduates on staff.

"When Med-Eng began exporting in 1982, we knew nothing about the mechanics and subtleties of exports: contracts, international commerce terms, logistics, local business customs, language barriers, setting up distribution channels, dealing with local agents, the art of negotiations, etc. We had to learn through the school of hard knocks. In today's fast-paced international business market, few companies can afford to learn about exports as we did. It is a little like asking an engineer to do accounting ... or a lawyer to do brain surgery."

"The FITT program sensitizes people to the success factors related to exports," says L'Abbé. "It's difficult to find staff in Ottawa with this export knowledge and experience, but FITT graduates are truly well-versed in the elements so critical to success in exports."

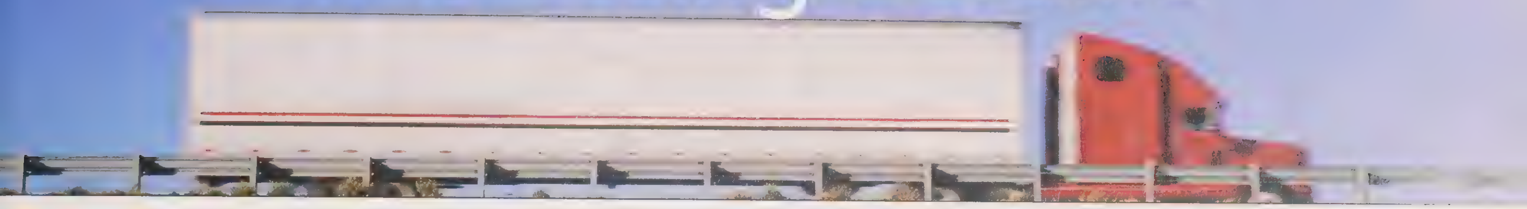
As a strategic partner, EDC has helped FITT to develop and update its course curriculum. FITT offers discounts to EDC clients on some programs.

"Trade isn't just about the exchange of goods – it's also about international business relationships and skills, and Canadians need to build these skills to boost their competitive edge, which is why EDC and FITT make such a great strategic alliance," adds Tompkins. "We're both trying to build the culture of international trade and Canada's capacity to be involved in international markets." ■

FITT was founded in 1992 by industry and government to develop international trade training programs and services, establish country-wide standards and certification, and ensure continuing professional development in the practice of international trade. In 2005 about 1,100 professionals undertook the FITTskills courses, offered through 55 partner educational institutions. To date, 250 FITT graduates have achieved the CITP designation.

For information on FITTskills, CITP and other programs, go to **www.fitt.ca**.

Wide Range: Cutting the Cost of Crossing Borders



Whether exporting or importing goods, the transportation and logistics services a company uses can often make or break a deal.

BY TOBY HERSCOVITCH

"The days of 'pickup at A and deliver to B' are over," says Bob Dell, Partner of Wide Range Transportation Group, a transportation and logistics services company near Hamilton, Ontario.

Dell and his partners Perry Thibeault and Don Cowgill take a holistic approach to getting the goods across borders or overseas. The company handles transportation, logistics, distribution, warehousing and customs brokering for its customers, whether directly or by outsourcing some of these services. It has also embraced the security measures put forth by the United States after 9-11.

Over the last five years, the company's business revenues have doubled as it acquired its own fleet, warehousing and logistics divisions. "The Internet is the way to go today," says Cowgill. "We use information management tools for transporting, warehousing and distribution of the goods. It's not just a matter of grabbing the information; that's useless … unless you can assess the data and use it to see your costs and manage them. We help our customers squeeze value out of their transportation."

"Our services tie into the customers' Enterprise Resource Planning (ERP) systems. This means that we can take their ERP data, from open orders to purchase orders, and populate our shipping system with it. Aside from tracking the goods, we can tell clients if they are profitable, right down to each SKU," adds Cowgill.

For example, when one large customer examined its overall international freight costs, they realized that they were reaching $30–40-million annually. Wide Range helped the company see the big picture, which was the first step in reducing its logistics budget.

In today's global supply chains, where many companies import parts and then export a final product, logistics figure heavily in the whole integrated trading equation and need to be managed carefully. "Up to 30 per cent of the cost of goods sold can be attributed to logistics," notes John McPherson, a Marketing Advisor at EDC, who has extensive experience in this sector.

EDC EXTENDS SERVICES TO LOGISTICS INDUSTRY

EDC recently started to provide Accounts Receivable Insurance (ARI) to logistics businesses, acquiring more than 10 new clients in this sector over the past year.

"It's a good fit with EDC's mandate, because by facilitating business for clients like Wide Range, covering both their international and domestic receivables, we are facilitating trade for their customers who are mainly Canadian exporters," says McPherson.

Adds Dell: "We're in a very volatile industry, where profit margins are slim. I had looked up EDC on the Internet, but initially thought that their services were only for manufacturers. We had good timing when we called EDC, because it was just starting to serve logistics companies. I'm very excited about this relationship."

About 70 per cent of Wide Range's transportation activities are across the Canada-U.S. border. The remainder of shipments is generally to Europe, Mexico and within Canada. Most of the goods they move are sent by truck or train.

Although Wide Range is considered a medium-sized company in its sector, it deals with customers of all sizes, including General Electric, some large pharmaceutical and food companies and many automotive businesses.

"Many large companies want to stick to their core business, so they use our services for their logistics needs. We're not too big, yet we have the modern software and skills that make us flexible," says Dell. ■

Company:	Wide Range Transportation Group
Business:	Full transportation, distribution, warehousing and logistics services
Location:	Grimsby, Ontario
Employees:	46
Exports:	70% Canada-U.S. transportation
Markets:	United States, Europe, Mexico
Contact:	www.widerange.ca or 1-800-265-1975

Telecommunications Sector

Our Message is the Medium

For more than a century, Canada has been a leader in the telecommunications technology that has transformed the world. It was in Canada that Alexander Graham Bell and Guglielmo Marconi carried out much of their fundamental work, sparking a technological revolution that ultimately led to today's globe-spanning telephone and wireless networks. Canadians have been using telecommunications to bind the country together ever since, and have consistently led in the development of the field. Among our other achievements, Canadians designed and built Anik 1, the world's first domestic geostationary communications satellite, and we were the first country in the world to connect all our schools and libraries to the Internet.

BY DENNIS AND SANDI JONES

THAT WAS THEN, THIS IS NOW

This is a remarkable history of inventiveness and innovation. But where does Canada stand in the global telecommunications world today?

According to Keith Parsonage, Director General of Industry Canada's Information and Communications Technologies Branch, our telecom companies are among the best in the world. "Our primary strength," Parsonage observes, "lies with our telecommunications equipment manufacturers. Our companies have gained us international recognition in the field; Nortel, for example, has been a mainstay and a champion of the industry. On the innovation side, Canada also maintains incubators like the Innovation Centre at Industry Canada's Communications Research Centre (CRC). The people there have developed technologies that have been commercialized by private-sector companies and are now being sold around the world."

Our ability to innovate is crucial, largely because of the current explosive growth of wireless communications. Indeed, world-wide wireless networks continue to receive a disproportionate share of attention because many developing countries are using wireless technology to build their telecommunications infrastructures. And with good reason; for these countries, like India and China, the cost and time required to construct a wired network would be prohibitive. But at the same time, providing communications capacity to the population at large is a crucial factor in economic growth. In these cases, consequently, wireless is the only viable solution.

Consumer and business demand for mobile communications continues to grow in developed nations as well, as does the appetite for more sophisticated applications and the advanced wireless devices needed to run them. Even so, traditional wireline technology will remain a core element of the total telecom landscape, particularly in the developed world, and significant investments continue to be made in expanding the capacity of the telephone carriers' legacy wireline networks.

Photo: Courtesy of Nortel Networks

Nortel demo lab in Ottawa.

TRENDY TELECOM

Other trends are driving the growth of communications infrastructure as well. Among them are the Internet's increasing importance to businesses, governments and consumers, the voracious appetite for more bandwidth to support new mobile and wireline applications, and the widespread desire for the consumer services these applications can provide. Canadian telecom equipment exports reflect this direction very clearly; between 1995 and 2004, exports of wireless-related equipment increased by almost 150 per cent, while those of wireline equipment went up by 22 per cent. And while it's true that wireline technology still accounted for 56 per cent of our 2004 telecom exports, versus 33 per cent for wireless equipment including radio and television broadcast technology, the importance of the wireless side is expected to grow.

Overall, the telecommunications industry is an important part of Canada's economy. More than 300 companies of all sizes are involved in equipment manufacturing, and employ some 23,000 people. Total export revenue for 2004 was approximately $6.1 billion, 68 per cent of which was earned though sales to the United States During the same year, Canada's overall telecom exports grew by 11 per cent, the first increase since the abrupt downturn of 2000–2001. In consequence, Canada was the world's 16th largest telecom exporter in 2004, up from 18th in 2003. Better yet, according to EDC's forecasts, these exports will show a growth of 8 per cent for 2005 and 5 per cent for the following year.

More than 300 companies of all sizes are involved in equipment manufacturing, and employ some 23,000 people.

ONWARD AND UPWARD

Forward thinking has been a vital contributor to Canada's strength as an exporter of information and communications technology (ICT). Brad Poulos, President and CEO of Wireless Age Communications Inc., a Mississauga-based company that develops wireless products and networks, has no doubts on this score.

"Much of the innovation going on now in Canada," says Poulos, "has to do with moving more data through the telecommunications channels that already exist. One example is the work going on in Multiple In and Multiple Out (MIMO) technology, which is an antenna and radio technology intended to punch signals through urban environments that are intrinsically very noisy and dense. Another is micro-electro-mechanical systems (MEMS) technology, very tiny devices on the nanotech level – they have myriad uses in optical switching and high-speed wireless applications."

Is all this talent and enterprise enough to sustain and improve our position in the global market? "The Canadian industry is holding its own," says Parsonage, "although it's operating in a challenging environment. We have some fierce competition, particularly from China. However, our companies are becoming quite adept at picking their niches, and in some of those niches, they're doing extremely well indeed."

WHY ARE WE STRONG?

Canada has more than a century of telecommunications experience.

We possess major expertise in both niche and wide-application technologies.

We are committed to researching, developing and commercializing new technologies.

Our telecom companies enjoy strong government support both internationally and domestically.

CREDIT WHERE IT'S DUE

The Canadian government deserves some of the credit for our success at the leading edge. The CRC Innovation Centre has already been mentioned and, on the export front, the Canadian Trade Commissioner Service provides our companies with a broad range of on-the-ground services in foreign markets. Yet, another type of government support, financial in this case, comes from EDC, a Crown corporation.

"We support the sector across all its product lines," says David Guy, EDC's Director, Telecom Team. "Our financing services, short-term insurance, contract insurance and bonding all play an important role in supporting the sector. Financing, in particular, is important when a company is breaking into new markets where buyers may not have easy access to capital. In some cases, EDC represents an alternative source of financing to more established companies, and this is often very helpful to the exporter in winning a deal. Issuing bonds to buyers is also a necessary part of doing business for Canadian telecom companies, and EDC can provide support in that area as well."


Photo: REUTERS/Claro Cortes IV

A Chinese worker checks mobile phone parts at a production line.

As a result of all this, our telecom sector has recently achieved some notable international successes. EDC is supporting an important contract for Nortel by providing USD 250 million in financing for a major, wireless infrastructure project being undertaken in India by Reliance Infocomm. EDC also provided approximately USD 100 million to Hong Kong's Hutchison Telecommunications International Limited (HTIL); this financing will support Canadian telecom exporters generally, one example being Nortel's sales to HTIL's operation in Vietnam.

Another EDC-backed deal will provide financing of USD 50 million, in support of Ericsson Canada, for part of a corporate facility for Wataniya Telecom Algérie. EDC has also signed a USD 10.5 million agreement with Russia's JSCB Promsvyazbank to support Nortel equipment exports to the Russian mobile operator SMARTS, the fourth-largest mobile communications company in that country. Elsewhere in Russia, Nortel is making inroads into both the wireless and wireline subsectors, which are growing quickly and are attracting substantial investment.

Nortel itself, of course, is another Canadian success story. Despite its difficulties after the 2000–2001 downturn in the ICT sector, the company continues to be a power on the international stage; it operates in more than 150 countries, with approximately 94 per cent of its sales occurring outside Canada.

WHERE DO WE FALL SHORT?

The small number of major Canadian companies hampers our ability to compete and causes us to miss opportunities.

The inability of our SMEs to provide turnkey solutions shrinks our potential customer base.

We are improving in overall R&D performance, but not as quickly or effectively as some of our competitors.

LOOMING COMPETITION

But as Parsonage observed, our telecom companies operate in an environment populated by relentless competitors, and we confront some serious challenges.

One problem for some small companies is that they often can't provide complete, turnkey installations for their customers in the way that large enterprises can. Unfortunately, as Parsonage says, Canada has very few companies that are big enough to supply end-to-end solutions at the international level, and this limits the opportunities open to our telecom sector as a whole.

Another issue is the move toward manufacturing telecom equipment outside Canada, in countries where production costs are more competitive. Poulos estimates that the amount of equipment built in Canada is only half of what it was at its peak. Somewhat offsetting this is that many Canadian companies, while they manufacture components and subsystems offshore, still assemble and test the final products here in Canada. Moreover, shifting lower-value segments of the manufacturing process to more cost-effective locations can increase a company's productivity. This generates more revenue that can be reinvested in R&D, further increasing the firm's competitiveness.

PERFORMANCE PRESSURES

A further worry is the current state of Canada's R&D performance, which lags despite past incentives to encourage it. As a result of this concern, the Government of Canada has set up the Technology Commercialization Task Force to recommend ways in which Canada can improve its performance in all areas of technology, including telecommunications. Still another initiative, this one from the CRC, is bringing together wireless technology clusters from across the country into an organization called the Canada Network of Wireless Centres (CWCnet), which will help companies test and launch their products.

Financial incentives provide another avenue for strengthening the R&D sector. The Canadian Advanced Technology Alliance (CATA) and the Information Technology Association of Canada (ITAC) are pressing the government to improve the current scientific research and experimental development tax credit to make it less restrictive and easier to use, especially by SMEs. Other possible strategies include accelerated depreciation for equipment

Canada has some **special capabilities** that will help us take advantage of this potential. We remain **leaders in wireless innovation** and can be well positioned to take advantage of new technologies such as the **emerging third generation of wireless, usually called 3G.**

WHERE DO OUR OPPORTUNITIES LIE?

The United States, our largest single market, is investing heavily in telecom equipment.

Emerging markets, such as China and India, offer huge potential for Canadian telecom exports.

SMEs can prosper in these emerging markets by partnering with larger companies.

New technologies such as 3G may provide major opportunities abroad.

acquisition, and a strong push by government to speed up the adoption of new technology in other sectors, so that we become more competitive overall.

FROM NEW YORK TO NEW DELHI

The United States, of course, has traditionally been our chief customer for telecommunications exports. This isn't likely to change anytime soon, given that U.S. businesses are currently ploughing more investment into telecom than they are into computers, peripherals and software combined. But emerging markets like India are beginning to afford many further opportunities, so our companies now have to look to the world as their marketplace. This is all the more important because domestic demand can't hope to support the growth and development of viable Canadian SMEs. The need to export is almost a given.

And the opportunities are vast. Although it's a truism to say that billions of people have never yet made a telephone call, let alone have access to broadband communications, the cliché nevertheless points to the reality of an enormous, untapped market. Moreover, telecom systems mean far more than simply making communications easier. They are in themselves economic development tools, enabling technologies and sources of competitive advantage.

BIGGER THAN BIG

India, to provide just one example, is undertaking an energetic push to increase its level of wireless penetration. "It's an interesting market because its potential is simply off the chart," says EDC's David Guy. "To put it into perspective, consider that some of the operators there have only a small piece of the total potential wireless market. But even they have total subscriber bases that are larger than Canada's entire population. Moreover, penetration rates – the number of wireless devices per person in the market – are still very low in India, so there's a tremendous amount of untapped growth. Reliance Infocomm, for example, is still at the early stages of its network rollout, but they already have more than 8 million subscribers. That's more subscribers than all of Canada's wireless operators combined. And Reliance is only one of several similarly-sized operators in India."

Nortel has a substantial presence in India and all major Nortel Technology labs around the world have assigned part of their development activity to India. Ashoka Valia, Managing Director of Nortel India says, "It's essential for any economy targeting growth in IT and knowledge-based industries to establish, then maintain, a world-class telecommunications infrastructure. Nortel has been playing a broad and diverse role in helping India meet this need. Our solutions span all the key elements of customer networks from high-speed optical backbone through to wireless and wireline and then enterprise."

Wireless penetration rates, according to Poulos, are quite a good measure of potential demand; in China, for instance, the rate is forecast to increase from 25 per cent to more than 40 per cent during the next five years, with obvious implications. Penetration rates also show that there's plenty of room for growth in the developed world, too. "The average penetration in many developed nations," Poulos says, "is still down in the 50 to 60 per cent range, even though some, like Italy and Sweden, are above 100 per cent. So I see a huge opportunity as those lower-penetration countries move toward the 100 per cent level."

JUMPING ON 3G

Canada has some special capabilities that will help us take advantage of this potential. We remain leaders in wireless innovation and can be well positioned to take advantage of new technologies such as the emerging third generation of wireless, usually called 3G. This advanced technology will support bandwidth-hungry applications including full-motion video, video conferencing and full Internet access.

Do our SMEs have a role in this burgeoning market? There are definitely opportunities for smaller businesses to partner with larger companies by filling a specialized niche. Other SMEs can and do succeed on their own in the United States, again by specializing. But to enter non-U.S. foreign markets, Parsonage advises, it's absolutely essential to have a local partner. "Once you step outside North America, you've got a challenge. In many cultures, development of long-term relationships is essential; you don't walk in today and make a sale tomorrow. Partnering mechanisms are probably the only way you can get into those particular marketplaces."

Between 1995 and 2004, exports of wireless-related equipment increased by almost 150 per cent.

Photo: REUTERS/Jayanta Shaw

India is undertaking a push to increase its level of wireless penetration

WEST MEETS EAST (AND WEST)

Our telecom companies are confronting fierce competition, especially from huge Asian companies like ZTE, China's largest telecommunications equipment manufacturer. In Russia there are no telecom manufacturers of consequence, so Nortel is nose-to-nose there with large western exporters like Alcatel, Siemens, Ericsson, Motorola and Lucent.

But many of our smaller competitors are non-Canadian SMEs, and it's in this arena that our own SMEs can do well; a niche player with rich intellectual property can be quite competitive in overseas markets. At the same time, smaller companies whose major value lies in such property need to recognize that there's always a threat of losing it to other players in those markets, so protecting it is crucial.

In addition, we have to cope with the normal rise and fall of markets. The Asian market for Canadian telecom equipment is expected to weaken during the next two years as domestic companies in the region develop capacity to meet local demand. The U.K. wireless market was very fruitful for us during 2004, but penetration is now hovering around 100 per cent; as a result, while our U.K. exports will continue to expand, they will do so at a much slower rate.

FOREIGN FINANCIERS

Furthermore, while Canadian financial institutions like EDC are energetic in supporting our telecom exporters, we're not the only country providing such help. "Almost all the vendors competing with Canadian companies have their own forms of government and export credit support," says Guy. "Moreover, export creditors from the developed world, including Canada, use OECD-established rules – commonly known as the OECD Consensus – to keep the financial playing field more or less level. But that's not the case with everybody, which can complicate matters for the exporter and EDC."

In the long term, another threat to Canada's telecom industry may be a two-pronged one: the loss of manufacturing competitiveness, which is already happening, coupled with the increasing ability of overseas competitors to do leading-edge research and development as well as we can – and at a lower cost. India alone graduates about 300,000 engineers a year, and they're all going to be working at *something*. In short, while we have important R&D capabilities at the moment, we'll have to work hard to stay at the front of the pack.

And that will require improvements at home, says Poulos. "If we're going to export innovation and brain power, we absolutely have to provide ubiquitous broadband capability within Canada. A community can't possibly be in the intellectual property business without it. Every Canadian today has a right to telephone voice service, and I think that broadband access will eventually be perceived as a right as well."

WHAT THREATENS OUR TELECOM SECTOR?

We are facing relentless and effective competition from foreign companies, especially Chinese firms.

The increasing ability of overseas companies to equal our R&D and innovation capacities may lead to decreased demand for our products and expertise.

We are encountering growing competition in export credit support from countries that don't work by the OECD consensus.

THE VIEW FROM HERE

So what does the future look like for our telecom sector? In the short term, our exports will continue to grow. At the same time, there will be steady downward pressure on equipment prices, so companies may find their margins shrinking. But we will continue to penetrate new markets beyond North America; in November 2005, for example, representatives of the Information Technology Association of Canada and India's National Association of Software and Service Companies signed a memorandum of understanding to increase trade between the two countries in the ICT sector.

And while there's no magic bullet, our best ammunition probably lies in our ability to forge productive relationships with our partners and customers, and in the excellence of the products we offer – those two crucial factors can often outweigh the importance of cost in closing a deal. Even so, companies that want to survive as telecommunications exporters will have to be smart, nimble and aggressive, and will need to take full advantage of all the government and private resources at their disposal. But there's plenty of room for optimism; as a telecommunications power, Canada has been pursuing its goals with vigour and determination for more than a century. And that's not going to change anytime soon. ■

Our experts

For this article, we consulted four experts who have a broad range of experience with the Canadian telecommunications sector. They are:

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SolutionInc: Nothing Succeeds Like Access

BY DENNIS AND SANDI JONES

Can a small Canadian telecommunications business, facing competition from far larger companies and operating in a world where innovation is a matter of survival, still prosper in the international market? In the case of SolutionInc Limited, the answer is an emphatic yes.

SolutionInc, which specializes in software products and services for the Internet access and IP provisioning market, was founded in Halifax in 1997. Its lead product is SolutionIP™, which businesses around the world use in wired, wireless and Wi-Fi environments. SolutionIP™ not only allows properties to authenticate and bill users for high-speed Internet access, but also provides an extra layer of network security. The company's customers and partners include major telecommunications firms, hotel chains and other organizations in North America, Europe, Egypt, Saudi Arabia, Jordan, Hong Kong and China. In its most recent success, SolutionInc has signed a contract to provide software solutions to Europe's largest on-demand video provider.

A RUNNING START

In fact, SolutionInc has been thriving in foreign markets almost from its inception. "We began exporting in 1999, when we first had a commercially viable product," says Glen Lavigne, the company's President and CEO. "Initially it was into the United States, but we quickly found overseas markets in high-end hotels like the Royal Lancaster in London and the Ritz Palace in Paris. Our products and services have worldwide applicability, so exporting has always been our strategy for expanding our business. As a result, the vast majority of our business is in export."

Direct sales to foreign buyers, though, are only one ingredient of SolutionInc's success. The company's approach, both at home and abroad, has been to acquire significant customers and then, by building on that reputation, to attract partners who would use SolutionInc products and services to enhance their own. And it's been a successful strategy; the firm now provides niche applications, such as billing and authentication products, for several large telecommunications companies. In turn, these partnerships have helped SolutionInc make an impact in additional export markets.

THE REWARDS OF DILIGENCE

Success, of course, is never guaranteed, no matter how good the product or flawless the service. "Exporting is a scary proposition for a small company," observes Lavigne, "and you can't overstate the need for due diligence. The more time and energy you spend on it, the smoother your transition into an export market will be. You have to understand the market's culture, the expectations of your new customers and the kinds of competition you'll encounter there. It means getting to know the partners you'll be doing business with, because you have to build a rapport with them that will work in both good times and bad."

But even with the most attentive due diligence, export markets and their inherent financial risks can be dangerous for smaller companies like SolutionInc. And that's where EDC can help.

"EDC has been very responsive to our needs," says Lavigne. "They've helped us get answers to tough questions as we've moved into markets overseas. At this stage of our development, EDC's Accounts Receivable Insurance has been the most important tool for us. You have no business until someone pays you, and the guarantee of payment that we get from EDC has allowed us to expand into new markets."

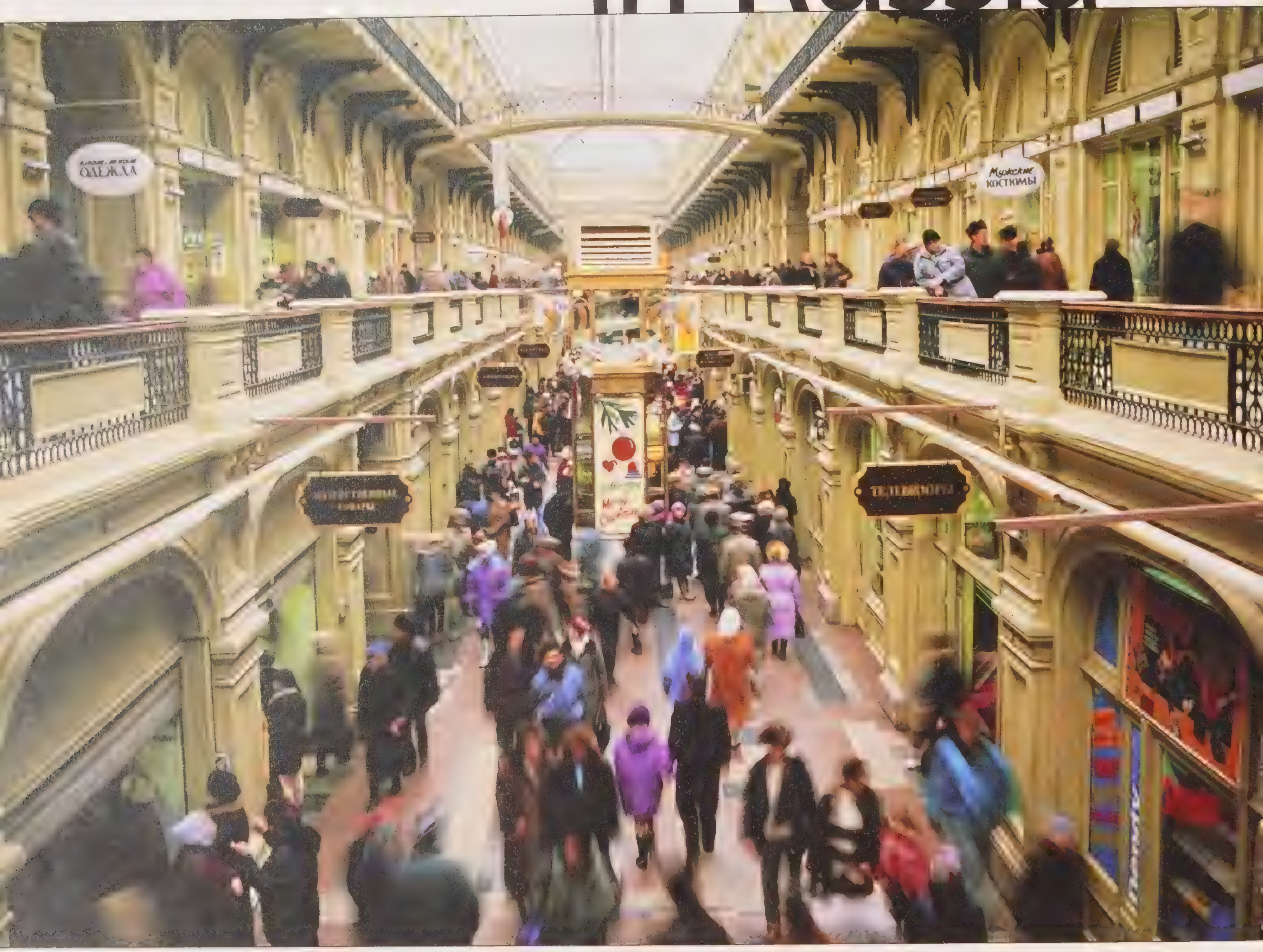
For smaller telecommunications exporters, SolutionInc's successful embrace of exporting offers more than an inspiring example. It's also an assurance that with world-class products, strong partnerships and meticulous planning, the same kind of success is possible for companies of any size.

COMPANY PROFILE

Company:	SolutionInc Limited
Business:	Supplier of Internet provisioning, authentication, and billing software
Location:	Halifax, Nova Scotia
Employees:	25+
Exports:	90%
Markets:	Europe, Egypt, Saudi Arabia, Jordan, Hong Kong, China
Contact:	www.solutioninc.com or (902) 420-0077

Spending Time in Russia

BY DALE MORRIS



As a country, Russia is vast in geography, rich in oil, and complex in politics. As a market for export and investment, it is ripe with opportunity. Canadian companies willing to commit to the market stand to prosper.

Canadian exports to Russia for 2005 are **up 50 per cent** – on track to exceed **$600 million**.


With the rise of oil prices, Russia recovered from financial crisis.

Businesspeople returning from the Russian Federation repeatedly remark on the incredible transformation underway in that country. Indeed, Russia has thrown off the shackles of the recent post-Soviet period and is rushing towards modernization in almost all spheres of economic activity. Its political structures are becoming more stable, its macroeconomy is strong and its rate of growth impressive. Russian enterprises are in the midst of a massive retooling, and Canadian companies are well-placed to deliver goods and services appropriate to that demand. No wonder, then, that Russia's been identified by EDC as one of its top five priority markets.

ECONOMIC RECOVERY AND REVITALIZATION

Russia has fully rebounded from its financial crisis of 1998, when its government was forced into a default position and the currency peg was abandoned, leading to currency devaluation and debt default. The hangover from that event was intense, and access to capital nearly dried up.

But with the rise in oil prices, Russia recovered rapidly. Domestic industries were helped out by the devalued currency (imports became more expensive and Russian exports more competitive), and Russian companies paid off arrears and back taxes.

Today, the country holds investment-grade credit ratings from the world's three leading credit agencies – Moody's, Standard & Poor's (S&P), and Fitch. Its foreign debt has declined from 90 per cent of GDP in 1998 to around 28 per cent, and its foreign reserves hit $170 billion by the end of 2004. While Russia remains vulnerable to fluctuations in oil prices, its currency has appreciated, and its gross domestic product (GDP) growth rate healthy at roughly 6.7 per cent.

"As an oil-dependent economy, Russia is vulnerable to external price swings, but consumption is strong, unemployment is decreasing, and people have more disposable income," says EDC Economist Mark Worral. "As a large middle class continues to emerge, the demand for consumer goods, automobiles and building products is increasing," adds John Kur, Senior Trade Commissioner at the Canadian embassy in Moscow.

THE BANKING SECTOR

Russia's banking sector has undergone notable reform as well.

"At the time of the crisis, the banking sector was acting more as a tool of the government, rather than a facilitator of the economy," says Michael Harkins, EDC bank analyst for Russia. "That has changed to a great extent."

Oversight of the banking system by Russia's Central Bank has improved and International Accounting Standards have been introduced. A deposit-guarantee structure was introduced for private banks – complementing an existing guarantee on deposits held at public sector banks – to assure Russian citizens of their money's security. With this measure in place, and burgeoning consumer demand, retail banking has once again taken off.

In 1998, some 4,000 banks were operating in Russia. The sector, now at the start of a consolidation period, comprises approximately 1,300 institutions: a top tier of state-owned banks including Sberbank and Vneshtorgbank (VTB); a second tier of strong private and foreign-owned banks including Raiffeisenbank, International Moscow Bank and Uralsib Financial Corporation; and a third tier of smaller and regional institutions.

Momentum in banking reforms promises to continue as Russia prepares for accession to the World Trade Organization (WTO), says Michael Reshitnyk, Senior Trade Commissioner, Europe Commercial Relations Division, International Trade Canada.

"There is progress, but these transformations take time. They will be driven by Russian's determination to accede to the WTO, with the aim of resolving any technical problems inhibiting international trade," Breton says. "In addition, Russia will be a G8 presidency country next year, hosting the Summit in St. Petersburg. This too will give impetus to the transformations."

Rod Lever
Regional Manager for Russia and the CIS
International Business Development
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PERSISTENT POLITICAL COMPLEXITY

While the economic picture is strong, the country's political and legal systems remain complex.

Political stability has steadily increased since Vladimir Putin took over from Boris Yeltsin as President in 2000. Putin enjoys substantial support from parliament, state organizations and local enterprises, and a good public opinion rating. As a result, policymaking proceeds with little interference from the legislature.

Putin's approach has been to recentralize many state functions; he exhibits varying degrees of statism. "He believes a strong state is necessary for democracy and that politics must be managed as the state achieves full democracy," says Signi Schneider, EDC Political Risk Analyst. "He is liable to subordinate certain aspects of democracy to other priorities such as security and stability. This can include subordination of an open and competitive business environment to state economic interests."

Putin's approach has been challenging for the oligarchs – the young men with huge wealth who took over and privatized many of the state assets when the Soviet Union fell. "He has encouraged them to be more 'socially responsible' – to contribute to Russia's wealth, rather than their own," Schneider says.

Adding to these dynamics, Soviet vestiges remain within the country's bureaucracy, and money and power corruption remains a serious issue. "It's a challenge to change a political culture. Russia was Soviet for 70 years and czarist before that. It's never known democracy," says EDC's Worral.

That reality has earned Russia a low ranking of 126 out of 159 countries on the Transparency Index published by Transparency International and a score of 2.4 out of 10.

THE LEGISLATIVE SYSTEM

The judicial system, too, is complex. It comprises a federal level and more than 80 subnational units, in addition to several regional-government courts. Part of a new commercial code has been implemented, however, many old codes still stand. Detailed contract language and an in-depth understanding of technicalities are required for parties entering into agreements.

"The enforcement of Russian law and the recognition of resolutions from foreign courts are inconsistent," says EDC's Schneider. "That being said, reforms are proceeding. Though in cases with a political dimension, decisions are likely to be less fair, a better level of arbitration and enforcement in commercial disputes exists. Foreign parties are winning their cases and arbitral awards are being paid."

ACTIVE TRADE WITH CANADA

In this economic and political environment, business activity between Russia and Canada is on the rise. "EDC's business volume in Russia increased from about USD 13 million in 2003 to USD 501 million in 2005," says Rod Lever, EDC Regional Manager for Russia and the Commonwealth of Independent States (CIS). "We are looking to substantially increase that in the coming years."

As reported by International Trade Minister Jim Peterson in an October 2005 address to the Canada-Russia Business Council, Canada is on course to achieve that goal: Canadian exports to Russia for 2005 are up 50 per cent – on track to exceed $600 million. Canadian merchandise exports to Russia have increased significantly in recent years. In 2005 alone, they are expected to reach $178 million.

With high oil prices putting upward pressure on the ruble, imports have become relatively cheaper, and Russians themselves have more de facto buying power in terms of foreign goods. This spells opportunity for companies seeking to export into Russia.

> "Our **priority sectors** in Russia are **mining, energy, telecom, forestry** and **agricultural equipment**."

Like banking reform, legislative reform is slow. "The judiciary is being rebuilt and modernized to restore its credibility. It's a process that doesn't happen overnight," says Michael Reshitnyk. "Their body of legislation includes laws that date back to the 1920s and 1930s. For example, before Russia's new Housing Code was promulgated in 2005, there were old KGB decrees that were still valid."

"Despite Russia's political dynamics and legislative complexity, the country's macro-economic stability has afforded it increased resilience," says Klaus Büttner, EDC Regional Vice-President for Africa, Europe and Middle East.

"A highly valued currency squeezes domestic industry, which is good news for Canadian exporters," says EDC's Worral.

That said, barriers to trade between Russia and Canada do exist. "The geographic distance between our two countries, language barriers, and the tremendous pace of change in Russia make it challenging for Canadians to keep on top of what's happening here," says Trade Commissioner Kur.

Yet the opportunities are considerable given the synergies between the two countries. As the two largest nations in the world, they share topographical similarities, challenges of regional

As the two largest nations in the world, Canada and Russia share topographical similarities, challenges of regional disparity and similar climates.

Photo: © Alamy/Iain Mast

disparity, and have similar climates. As a result, sectoral complementarities exist. The same synergies exist between Canada and both Kazakhstan and Ukraine.

ADVANTAGEOUS SECTORS

"There are particular sectors where Canada has a comparative advantage – in oil and gas, mining, housing and construction, for example. Our technologies are more adaptive to Russia's northern environment," says Reshitnyk.

"In addition, with the high price of oil, Russia now has more capital available to proceed with modernization of its industrial and agricultural infrastructure – the production of canola oil and of beer, for example. This spells opportunity for Canadian equipment manufacturers. The agri-food sector is also growing as Russia is set to follow the North American trend toward organic-produce production. The demand for environmental technologies is increasing, and animal husbandry is developing as a sector or opportunity at a time when quality control is a prominent concern internationally."

"The breadth of sectors in which Canadians are active is growing," adds Kur. "Exports are moving more quickly; there is room for confidence. Investment, on the other hand, is still a more difficult process. You have to tread lightly. And opportunities vary by sector," says Reshitnyk.

While the foreign direct investment (FDI) experience has proved troubling for some Canadian companies – hoteliers such as Aerostar and Vlad Motor Inn among them – successes have been made as well. In 2004, Gazprom, one of Russia's leading petroleum companies, signed a Memorandum of Understanding (MOU) with Petro-Canada to investigate a joint liquefied natural gas (LNG) project that would see LNG shipped from Russia to North American markets by 2009.

Canada is working to build synergistic relationships with Canadian and Russian industry associations. The formation of the Canada-Eurasia-Russia Business Association Council (CERBA) in 2004 is one example. CERBA comprises four working groups – one each in information and communications technology, energy, transportation and aerospace, and mining and metals. These are chaired by Nortel Networks, Petro-Canada, Bombardier, and Barrick, respectively.

"We are executing the EDC business development strategy in collaboration with International Trade Canada and in partnership with the business community," says EDC's Lever. "Our priority sectors in Russia are mining, energy, telecom, forestry and agricultural equipment. We're working hard to bring buyers and vendors together."

For example, as part of a project with Russia's SUAL group, EDC brought senior representatives from Komi Aluminum to Toronto to explain the technical and financial needs of the project sponsors to prospective Canadian suppliers. In February, EDC will coordinate similar meetings with Russian forestry companies, in conjunction with Paper Week activities in Montreal.

"We are promoting direct relationships to bridge the distance and cultural gap between Canadian and Russian partners to facilitate the signing of contracts." ■

RUSSIA AT A GLANCE

Area: 17,075,200 sq km

Bordering Countries: Azerbaijan, Belarus, China, Estonia, Finland, Georgia, Kazakhstan, North Korea, Latvia, Lithuania, Mongolia, Norway, Poland, Ukraine

Population: 144.1 million

Currency: Russian ruble (24 rubles is roughly equivalent to $1)

Credit Rating: Investment grade

Gross Domestic Product (GDP): USD 1.408 trillion

Nominal GDP for 2005: USD 582 billion

Inflation: 13.1%

Traditional Industries: Oil and gas, mining, forestry, high technology, telecommunications equipment, aerospace

Emerging Sectors: Agriculture, construction materials, automotive, retail and consumer goods, animal husbandry

Primary Exports: Natural resources

Primary Imports: Finished goods (machinery and equipment, consumer goods, foodstuffs)

Largest Merchandise Trading Partners: Germany and the United States

Merchandise Imports from Canada: USD 152.5 million

The Export Opportunity:
Mitigating Risk

Canadians seeking to export to Russia can take measures to protect their interests. Experts on Russia from EDC and Foreign Affairs offer this advice:

1. Know your partner. Investigate your partner to ensure there is no past record of corruption. Determine whether the organization has a code of ethical conduct and International Accounting Standards in place. "Do your due diligence on your partner and proceed with caution," says Joanne Paquette, Senior Legal Counsel at EDC.

2. Beware of bribery. Instances of fraud, bribery, racketeering and even conspiracy to murder have been recorded in Russia. Be cautious. Familiarize yourself with Canada's *Corruption of Foreign Public Officials Act.* Consult EDC's *Code of Business Ethics.* "Export credit agencies such as EDC will not lend into transactions tainted with bribery," Paquette says. EDC's Anti-Corruption Program requires exporters to sign an anti-corruption declaration.

3. Negotiate a good contract. "Beware of convoluted wording; it is likely not accidental," says EDC Political Risk Analyst Signi Schneider. It is wise to engage a Russian lawyer familiar with Russian laws and technicalities.

4. Choose local distributors and agents wisely. Verify their reputation and credentials. Consult with the Trade Commissioner Service, the Canadian embassy in Moscow or the Canadian consulate in St. Petersburg.

5. Access support from EDC. Take advantage of EDC's receivables insurance or EDC financing. In the Russian market, three forms of financing are most relevant: export financing; lines of credit that EDC has pre-negotiated with Russian banks; and letters of credit, which are a mechanism through which exporters can ensure payment and deferred payment terms by their Russian customer.

Taking direct credit exposure can be complex. EDC has good risk counterparts in Russia, with a solid understanding of the market," says EDC's Rod Lever.

Lending mechanisms via Russian banks are the main form of financing in Russia, Lever says. "Every Russian bank is interested. Large Russian companies such as Gazprom can attract financing at cheaper rates, but mid-size Russian companies can't. Through EDC, they can access funds to buy the Canadian goods and services."

Here's the arrangement: EDC establishes a funding relationship with a Russian bank. That intermediary (borrower of record) lends the money to the Russian buyer. The Canadian exporter is typically paid through a secure instrument such as a letter of credit, and the Russian bank incurs a loan obligation to EDC. The Russian customer, now with a loan from the Russian bank, repays the bank, not the vendor.

For transactions not requiring long post-shipment financing, letters of credit can be used. These instruments are issued by Russian banks on behalf of Russian importers and are negotiated and confirmed by Canadian banks. In those cases, EDC has the capacity to insure the Canadian bank against non-payment by the Russian bank, allowing the Canadian banks to increase their capacity in Russia, and thus their support to Canadian exporters. "Many Canadian banks are aggressively pursuing relationships with Russian banks," says Michael Harkins, EDC bank analyst for Russia. ■

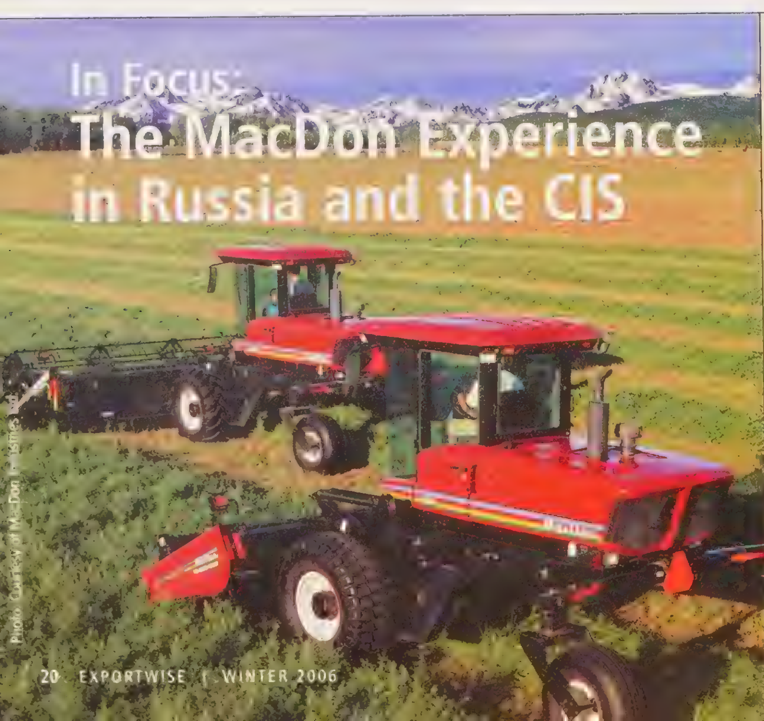

Photo: Courtesy of MacDon Industries Ltd.

Based in Winnipeg, Manitoba, MacDon Industries Ltd. is a family-owned, Canadian-based manufacturer of harvesting equipment. The company supplies pull-type and self-propelled windrowers and specialty headers for Russian-built combines to markets around the world. Its products are used to harvest a variety of cereal grains, oilseeds, grass seeds, rice, soybeans, hay and forage as well as specialty crops such as sunflowers, peas, lupins and lentils.

ExportWise spoke with Scott MacDonald, one of MacDon's owners, about the lessons his company has learned in Russia and the Commonwealth of Independent States (CIS).

Q: Briefly describe the nature of your business in Russia.

A: We started working in Russia back in 1986 when the Ministry of Machinery Building for the former USSR approached us to establish a licensing agreement with them for the production of our draper headers in Ukraine for use on Russian combines. The relationship was never consummated due to Perestroika in the early 1990s. The remainder of that decade was pretty dormant while Russia was evolving into a market-based economy.

For the past four years, however, we've been working with a few distributors in Russia, establishing an integrated and comprehensive distribution system for our products across the Russian Federation and Kazakhstan.

The Investment Opportunity:

Proceeding with Caution

More than export opportunities, investment in Russia requires rigorous due diligence. EDC's Political Risk Analyst Signi Schneider advises Canadian investors to proceed cautiously to avoid disputes or arbitration. "The judicial system can be convoluted and law enforcement inconsistent. There is always a technicality you can get hung up on," she says. EDC and Foreign Affairs experts offer the following counsel.

1. Engage a good Russian lawyer early on. "The Russian legal system is complex and can be convoluted. You need a good lawyer who understands the Russian context and has experience in your sector," Schneider says.

2. Investigate your Russian partner extensively. Make sure your partner is credible. Find out if he has links to crime, questionable political connections, or a history of corrupt conduct. "Don't put yourself in a dependent position," says Michael Reshitnyk, Senior Trade Commissioner.

3. Get the Russian federal and subnational governments onside early. In Russia, you need government buy-in early. "If you proceed too far ahead in the planning without soliciting buy-in – in a joint-venture with a Russian partner, for example – you may encounter problems," Schneider says.

4. Establish a local presence. "Investment requires rigorous due diligence on the prospective Russian partner, the economics of the transaction, and a local presence in Russia to understand the market. Economic reforms are proceeding, opportunities are emerging. It is difficult for Canadian companies to stay on top of the changes unless they are there on a regular basis," Trade Commissioner Kur says. "A local presence makes it easier to navigate the complex business and political environment."

5. Acquire Political Risk Insurance (PRI) from EDC. PRI protects a Canadian company's foreign assets and investments. It provides coverage for a full 90 per cent of eligible losses. ■

EDC'S CLIENT NETWORK IN RUSSIA

Alrosa	MacDon
SUAL	Wenco
RTC Leasing	Enersul
Vneshtorgbank	NCR
Gazprombank	Lovat
Uralsib Bank	Hatch Nortel Networks SNC-Lavalin Royal Bank TD Bank

EDC BUSINESS VOLUME IN RUSSIA: 2005 (PROJECTED)

Direct Financing:	$180 million
Contract Insurance and Bonding (CIB):	$15 million
Short-term Insurance (Mostly Documentary Credits Insurance):	$100 million
Political Risk Insurance (PRI):	$206 million
TOTAL:	$501 million

While we've been primarily selling on a cash-in-advance basis, with recent financing improvements and the increasingly market-driven economy, we are beginning to use financing vehicles to promote the sale of our products in the CIS.

Q: What has been EDC's involvement in your business activity?
A: Initially, EDC was pretty much 'off cover' with regard to the CIS countries. Within the past year, however, EDC is now observing viable opportunities for expanding trade and developing these markets.

We are working closely with EDC to access the CIS markets and compete with other players out of the United States and Europe. We are more encouraged than we have ever been that we'll find unique and competitive ways to structure financing for the wholesale and retail sales of our products into the CIS markets.

Q: What due diligence did you undertake in preparation for your involvement?
A: Over the past 20 or so years, we have maintained regular contact with other Canadian, U.S. and European exporters and have gained valuable experience from many of them. We have made numerous trips over to the region to meet and get to know the potential distributors for our products in anticipation of formulating a viable model to access these markets over time.

Q: What were the key challenges?
A: Some of the biggest challenges were finding the right partners and accessing financing. Distance was a challenge – Kazakhstan is literally halfway around the planet and land locked – as were the differences in language, cultural and business practices. Also, there has been a traditional lack of available infrastructure to support our sales and product support, but it's improving.

Q: What were the benefits?
A: There are huge potential markets for agriculture equipment suppliers and plenty of demand in the CIS. Many agricultural equipment manufacturers consider the CIS to be the last 'open frontier'.

Q: What advice would you give to exporters and investors considering undertaking business in Russia?
A: When you first consider entering the Russian market, be prepared to commit the required resources – money, people and time – because it won't be easy. Be patient. Find the right partners; it's better to move slowly and pick the right ones. Stay open-minded, because things work differently in that part of the world. Finally, recognize that financing will be required, and research available sources of financing for your customers through EDC and major banks.

Nemak: Driving growth in NAFTA supply chains

BY TERRI-SUE BUCHANAN

When Ford Motor Company made a decision in 2000 to divest and focus on its core business, it approached a long-standing supplier of 20 years, Mexican auto parts manufacturer Nemak, to buy two production facilities in its Windsor, Ontario industrial complex. Nemak is the automotive division of Alfa, one of Mexico's leading industrial conglomerates. Established in 1979, Nemak specializes in the production of high-tech aluminum heads and blocks for internal combustion engines.

Since Nemak assumed ownership of the Windsor plants, and incorporated its Canadian subsidiary, Nemak of Canada Corporation, it now supplies cast aluminum cylinder heads and engine blocks to Ford engine plants across North America. Nemak is a prime example of the world class Mexican-owned auto parts companies that are building on their achievements within NAFTA to establish global supply chains.

Making engine components from aluminum as automakers switch from iron parts has become a niche market and the main factor in Nemak's sustained growth, says Juvenal Villarreal, Financial Operations Director, Nemak.

In 2000, just prior to the acquisition of the Canadian facilities, sales were USD 350 million. The acquisitions in Canada, as well as its own growth in Mexico, allowed Nemak to reach USD 800 million in 2002. As 2005 drew to a close, Nemak was anticipating sales of USD 1.25 billion.

EDC's relationship with Nemak began in 1999 as a result of a trade mission sponsored by EDC and International Trade Canada which brought Canadian suppliers to Mexico with the goal of developing more automotive trade between these two key NAFTA countries.

"At the time, Nemak was experiencing phenomenal growth as original equipment manufacturers were switching to making engine components from iron to aluminum," says Villarreal.

Nemak was looking at the international syndicated bank market for a plant expansion, leading to its first involvement with EDC. "We recognized an opportunity to use EDC's financing capabilities to develop relationships with Nemak and Canadian machinery and equipment suppliers, says Dan Mancuso, Manager of EDC's Automotive Team.

"Since then, we have enjoyed a very positive relationship," adds EDC Regional Manager for Mexico in Monterrey, Noé Elizondo. Given the prospects for more growth with the continued integration of Mexico into the North American economy, EDC established a regional representative in Mexico City in 2000 and in Monterrey in 2002, to serve Canadian exporters in northern Mexico. Monterrey is recognized throughout Mexico for its industrial, commercial and educational strengths and is a key centre of global business. The Nemak loan syndication has been renewed three times since and EDC's contribution has increased every time.

EDC also supported the expansion of the Windsor facilities in 2002 and financed the acquisition of Canadian machinery and equipment for Nemak's Mexican operations in Monterrey, creating opportunities for a variety of Canadian automotive equipment and services suppliers selling to Nemak. In total, EDC has participated in five financing arrangements with Nemak.

Given the prospects for **more growth** with the continued integration of **Mexico** into the North American economy, EDC established a regional **representative** in **Mexico City** in 2000 and in **Monterrey** in 2002, to serve Canadian exporters in northern Mexico. Monterrey is recognized throughout Mexico for its **industrial, commercial** and **educational strengths** and is a key centre of **global business**.

Photo: © Keith Dannemiller/Corbis

An employee in the Nemak plant in Monterrey, Mexico, manufactures engine blocks.

Five of Nemak's 11 plants are outside of Mexico, including ones in Canada, Germany, Slovakia and the Czech Republic.

In 1999, at the time of signing the first transaction, Nemak's procurement from Canada was USD 100,000 from only a few Canadian companies. Since then, procurement from Mexico has increased to almost USD 17 million from more than 20 Canadian suppliers last year. EDC continues to arrange matchmaking missions in Canada and Mexico with Nemak's purchasing staff, to introduce key Canadian companies capable of supplying their equipment needs.

Nemak buys machinery, equipment and various raw materials from Canadian companies. Tooling, conveyors and a number of spare parts are among the most common goods. Aluminum ingot and aluminum scrap and resins are also bought in Canada, as are services such as engineering and heat treatment.

"Both Nemak Canada and Nemak Mexico present great opportunities for Canada," says Elizondo, "Nemak Canada as an exporter of Canadian-made goods, and Nemak Mexico as a customer of Canadian equipment and services exports."

"We have established awareness and access to a network of Canadian suppliers," confirms Mancuso. "Now that our relationship with Nemak is solid, we hope to introduce more Canadian suppliers to the network."

Although Nemak's most important customers are the North American OEMs, with the recent acquisition of Rautenbach AG, a German high-tech aluminum component company, Nemak increased its client portfolio with a premier European auto maker, while remaining the supplier of choice for the "Big Three."

Mexico's vehicle production is estimated to surpass two million units annually by 2008, making it the 10th largest automaker in the world. NAFTA led to the elimination of Mexico's auto decree which, until its implementation, restricted the growth of the Mexican vehicle and auto parts market. Once the decree was phased-out in January 2004, vehicles assembled in Mexico were no longer subject to a national content requirement of 29 per cent of Mexican-made parts, opening up the market and increasing the opportunities for Canadian suppliers.

Nemak is a good example of the growth of international supply chains where parts are being traded first, then the final goods are assembled and then traded again. And although this phenomenon is occurring globally, in the post-NAFTA period, inter-regional supply chains within the NAFTA zone are growing even faster.

In fact, 11 years after NAFTA, multilateral trade and investment has increased markedly. Canada is now Mexico's second biggest export market, and Mexico is our sixth. Canadian companies, however, are facing strong competition for some products as the automotive industry becomes increasingly global.

During this decade, Nemak has been strengthening its leadership as the largest aluminum cylinder heads and engine block supplier to the NAFTA market. As it has grown, Nemak's Canadian supplier base has also grown substantially, largely as a result of the acquisition of the Canadian facilities, and by virtue of the fact that they are simply closer to the Canadian supplier base. "Canadian expertise in the auto and equipment sectors is strong," says Villarreal, "specifically for the high-tech components that we use."

"Given our closer relationship with Canadian companies in the last five years, we think there will be more opportunities to widen our Canadian customer base with high quality and price competitive equipment and engineering services. We are constantly looking for other opportunities by increasing the level of business that we have with existing suppliers," adds Villarreal. ■

Since setting up its representation in Mexico City in April of 2000, the number of EDC clients served in Mexico has grown from 341 in 1999 to 446 in 2004.

Regional Representatives

In each edition, *ExportWise* will touch base with two of EDC's representatives working on location in strategically important markets. We'll learn first-hand about the opportunities they see and how they are helping to make deals happen for Canadian exporters.

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Appointed as EDC's Chief Representative to India in April of 2005, Peter Nesbitt brings to his posting more than 10 years of living and working in South Asia. As Marvin Hough, EDC's Regional Vice-President, International Business Development (Asia), notes, "Peter is on the ground, increasing EDC's responsiveness, enhancing our relationships with key Indian buyers and providing value-added market intelligence to give our clients the knowledge to make the best deals possible."

What interests you about India?

My passion for India developed over years of working with Indian counterparts and observing the Indian approach to business. It is highly competitive and dynamic, and business is pursued with enormous energy and confidence. Also, Indian culture, religion and history lend a distinctive character to any business relationship. My job is to give the Canadian exporter and investor an insight into this complexity and advise on a strategy that will enable them to profit from the opportunities of the Indian market.

What industry sectors show the most promise for Canadians in your region?

There is tremendous opportunity in all sectors, but top of mind are telecommunications, energy and agriculture. Telecommunications has been intrinsic to Indian growth in recent years and the focus of strategic planning and heavy investment for the future. The energy industry is racing to meet new demand and deregulation has opened up investment. Canadian suppliers can look to both micro-power opportunities as well as mega projects. In agriculture, companies should focus on supplying technology and services for food processing. Environmental services are in also high demand and the Indian automotive sector is looking to improve quality and expand into new export markets.

What are the strategies to achieving success in India?

Patience, and a regular presence in the market certainly, but bringing value-added components like technology and market access to a deal is critical. It is usually necessary to build a base of transactions, whatever the size, to establish a foundation for more complex dealings. Indian industry is increasingly looking to secure its position as a regional hub in Asia and is exploring overseas for new markets. Small- and medium-sized Indian companies often require partners to establish beachheads abroad. Proposals offering Indian companies assistance that align with their broader corporate goals can give Canadians a competitive advantage.

There is a large expatriate Indian community in Canada. Does this offer Canada an advantage?

Yes. Cross-national family ties reinforce the bonds of similar legal and political systems and history. The large Indo-Canadian community is a valuable resource for the insight, analysis and talent that can expedite relationship-building.

What excites you most about the challenges and opportunities you see in India?

Everywhere you look in India, growth is happening: a new power project, a massive rollout of broadband services, expanding highway networks. Seeing this firsthand and getting Canada into the mix excites me. With everyone jumping into this market, the challenge is raising the Canadian profile and letting Indian businesses know they can get everything they need to grow from Canada. We have had a lot of success so far, but we need to do more.

EDC's support to 129 Canadian exporters and investors in India in 2004 helped realize $611 million in exports and investments. This activity was spread over a variety sectors, evidence of the potential that Canadian technology, skill and expertise can be matched to India's demands.

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Marzena Koczut brings to her position native insights into the business culture of this region, combined with business expertise gained during her career in Canada. Klaus Büttner, EDC's Regional Vice-President for Africa, Europe and Middle East, is quick to highlight Marzena's financial experience as well, "Her past work in structuring complex financial arrangements for the automotive and aerospace industries will definitely bring real business value to our clients." Marzena's appointment is key to EDC's strategy for Central Europe, one that will enable Canadian investors and exporters to become global players in Europe's most rapidly growing region.

What specific qualities do you feel you bring to your new role in Central Europe?

I was born and raised in Poland, but most of my education and work experience was gained in Canada. That synergy of local know-how and western experience gives me an insider awareness of the strategies that can succeed in Europe. Along with my background in finance, my clients get the benefit of someone who not only speaks the language of the region but knows the culture, customs and practices that guide decision-making.

What industry sectors show the most promise for Canadians in your region?

Basic infrastructure, renewable energy, environmental services and the automotive sector are the primary segments where there is significant revitalization and expansion, thus creating opportunities for Canadian companies willing to include this region in their global strategy. The European Union (EU) has established two huge investment funds known as the Cohesion Fund and Development Fund. Both are targeted at rehabilitating the infrastructure of the newly acceding countries of Central Europe to help them meet EU standards. There is no requirement that suppliers to these projects be European, so opportunities for Canadian exporters are plentiful.

How do EDC's foreign representatives complement the trade services of Canadian Trade Commissioners at Canadian missions abroad?

The Trade Commissioner Service performs a matchmaker service to bring together Canadian exporters and investors with foreign business needs and demands. EDC's representatives complement their efforts by adding the financial solution that completes the transaction package. Nesbitt and Koczut spend much of their time travelling to the business centres of their regions, helping Canadian exporters to navigate the financial gap between missed opportunities, and secure business.

What is the best method to win entry to these sectors?

Canadians need to promote their chief advantages. They offer a combination of world-class management and technology, along with a reputation for respecting foreign cultures. Europeans appreciate that Canadians can get the job done, while being sensitive to the people, the culture and the history of the country in which they are doing business.

In your experience, what are the greatest challenges in doing business in your region? For Central Europe, does that differ within each country?

Intense competition is the chief challenge, so Canadian exporters have to find something that sets them apart. Business strategies must be adaptable to the priorities and strengths of different regional markets. For example, Hungary has an engineering tradition, giving it strength in manufacturing. Poland has more diversified industries compared to the Czech Republic and Slovakia. Successful strategies recognize the region's differences and leverage off each market's inherent strengths.

What are the risks that investors and exporters should note? What is the best way to mitigate such risks?

One needs to be aware that progress towards EU standards is uneven, particularly in the regulatory environment which is still in transition. There are pockets of entrenched interests and ingrained habits of secrecy that inhibit transparency and affect business affairs. EDC offers mitigation for some of the financial risks that can stem from this, plus we can give our clients detailed insights that can prevent delays and mistakes in the first place.

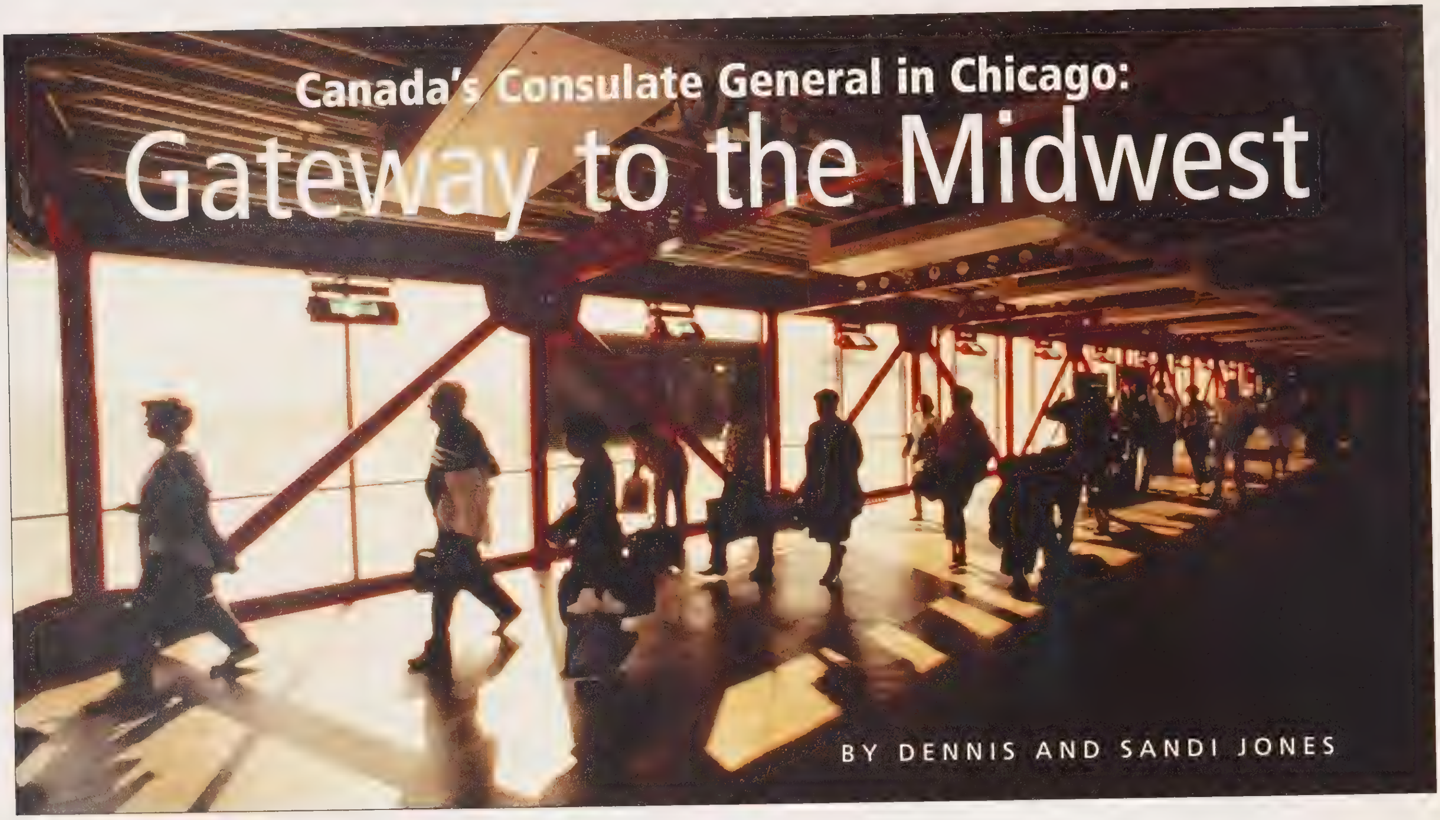
What excites you most about your role in the region?

It's exciting to help introduce and guide Canadian companies in a region that is rediscovering itself and its own potential. My strategic priority is to encourage Canadian companies to take a chance on a region that presents good opportunities for our goods and services and great opportunities for Canadian investment.

Where do you see the region in three years?

The region's next phase will see higher demand for post industrial requirements, such as enhanced worker training and labour mobility and a greater need for logistics expertise. With EU assistance, there is an opportunity to build an economic structure that combines the sophistication and efficiencies of the developed world with the lower costs, freedoms and entrepreneurialism of emerging markets. ■

Focus on the United States, Part I



Canada's Consulate General in Chicago: Gateway to the Midwest

BY DENNIS AND SANDI JONES

Photo: Getty Images/Tim Bieber

In this new series, we'll zero-in on the export support the Canadian Trade Commissioner Service provides through Canada's Consulates General in the United States. The series will also keep you up to date about the kinds of assistance that U.S.-bound exporters can get from EDC and the Government of Canada. In this first instalment, we introduce you to the U.S. Midwest region and the Canadian Trade Commissioner Service in Chicago.

SIX CORE SERVICES FROM THE CANADIAN TRADE COMMISSIONER SERVICE

All six services are free of charge and are offered to companies that have done their preparatory market research and selected their market. The services cover:

- market prospect assessment;
- key contacts searches;
- information on local companies;
- practical guidance about organizing business trips to the region;
- face-to-face briefings on current market intelligence; and
- advice on dealing with crucial business challenges.

For general information about these services and how to register for them, visit the Canadian Trade Commissioner Service website at **www.infoexport.gc.ca.** Then check out **www.infoexport.gc.ca/ie-en/Office.jsp?oid=188** for detailed information about the U.S. Midwest market and the Trade Commissioner Service in Chicago.

The traditional mainstays of Canada's trade with the American Midwest have been energy, auto parts, wood and paper products, manufactured goods, agriculture and food. Now, however, areas such as biotechnology, life sciences and nanotechnology are gaining importance. As a result, if your company is seeking export opportunities in this expanding range of U.S. sectors, the Midwest may present opportunities. And if you need help exploring the possibilities, start at the trade and investment team at Canada's Consulate General in Chicago.

The Consulate General covers the three states of Illinois, Wisconsin and Missouri, northwest Indiana and the Quad Cities of Iowa. With a population of 24 million and an average per-capita income among the highest in the United States, this region has been an impressive export market for Canada, with plenty of room to grow. During 2004, in fact, the Consulate's three-state region imported $35 billion worth of our goods and services – a full 10 per cent of our total exports to the United States. In addition, Canada is by far the largest supplier of energy to the area, exporting more than USD 8 billion in 2004.

Many other aspects of the region speak to its possibilities. Illinois has more than 18,000 manufacturers, half of which are in the Metro Chicago area. Chicago, described by American poet Carl Sandburg as the "City of big shoulders," is the third-largest metropolitan area in the United States, a prominent financial hub, the country's largest multimodal port and its number two centre for trade shows and business conventions.

Total Canadian exports to the U.S. in 2004 was $348 billion. That year, EDC supported approximately $30.6 billion in exports, roughly 8.8 per cent of all exports to the U.S. About 8 per cent of this business was facilitated by EDC's short-term insurance programs. In the Tri-State region, these programs approved $886.9 million in buyer credit limits to more than 3,900 buyers.

"These numbers demonstrate the importance of this region to Canadian exporters," notes Doug Ward, former EDC Senior Advisor in Policy and Government Relations. "With more than 3,900 buyers approved for EDC short-term credit in the Tri-State region alone, our value to exporters is well demonstrated. However exporters to this region may not fully appreciate the range of EDC's support for the export of commodities, capital goods, services and investments. By working more closely with Canadian Consulates in the U.S., and in particular with Mr. Egan and his team in Chicago, EDC can develop ways in which we can jointly be more useful to Canadian exporters in exploiting and expanding business opportunities."

While Canada's Consulate General is located in Chicago, opportunities exist throughout its territory. In Missouri, Kansas City is a key inland transportation centre and St. Louis is developing a reputation as a leader in agricultural life sciences; Wisconsin is a major player in the agriculture and agri-food sectors.

MARKETING TO THE MIDWEST

All this adds up to a very dynamic market for Canada, says Maurice Egan, the Consulate General's Deputy Consul General and Senior Trade Commissioner.

"We provide a range of contact and advisory services for Canadian companies that have done their research on the Midwest market and have decided to enter it," says Egan. "And we can provide the kind of on-the-ground intelligence that's hard to find, along with the networking and contact base they can use to develop relationships with American businesses in the region."

To support these practical services, the Chicago team has several officers who are responsible for various market sectors. "All of us," Egan says, "participate in the activities and meetings of the local and national industry associations. We stay current by expanding our network of contacts and increasing our knowledge of the regional marketplace. It's about staying actively engaged with the key contacts and groups in the communities. Chicago, for example, is a major trade show centre, so we can have 50 to 100 companies attending different shows over a two-week span. The city is also the region's industrial heart and a key food processing centre, so its manufactured and processed products, and the associated transportation systems and services, are a priority for us. But interest in new or newly flourishing sectors here, such as value-added building products and agricultural biotech, continues to grow."

WHO TO CONTACT

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www.international.gc.ca/chicago

NETWORKS AND NICHES

This level of activity keeps everybody busy. Last October, the Chicago team responded to service requests from some 60 Canadian companies, and a 30-company contingent visiting the region under the auspices of Team Canada Atlantic. In the same month, at least a dozen Canadian municipalities sent delegations to investigate trade and investment opportunities in the Midwest, and the Consulate General managed Canada's participation in SOFA (a major high-end three-dimensional arts expo) and NanoCommerce 2005.

On the U.S. side, there are many organizations and networks that the trade team draws on, and which Canadian companies can draw on as well. The vibrant and well-established international business community in Chicago includes groups like World Business Chicago, the World Trade Center of Chicago and the various Chambers of Commerce that are active throughout the territory. In addition, there are numerous trade and industry associations that are valuable sources of information and contacts. It's the energetic use of resources like these that have helped the Chicago trade team contribute to many Canadian export successes in the Midwest market, with companies finding not only buyers, but also representatives and distributors.

"There are challenges, of course," Egan observes. "It's a competitive marketplace because it's internationally important; more than 70 countries have official representation in Chicago. So one of our biggest challenges, despite the fact that Canada is so close to the United States and in many ways so similar, is simply to get ourselves noticed. Americans don't always realize the depth of the trade relationship between our two countries, and aren't aware that Canada is the United States' most important trading partner. So, as a Canadian exporter, you have to work hard to carve out a niche. You need commitment and perseverance, and a lot of patience."

VENTURES AND VALUES

Thorough preparation is also crucial to success. As with any business venture, you have to do your research to understand your potential customers (for instance, in the Chicago area, understanding the labelling needs of a large and growing Spanish-speaking population), their market and the competition. You have to be prepared for the inevitable challenges of exporting, too, such as cross-border shipping – understanding transportation and logistics is key to profitability – and currency fluctuations. You'll also need to deal with the issues of export financing and risk mitigation, which is where EDC can help.

"EDC is one of our key partners," says Egan. "The services it provides for Canadian companies is part of the portfolio, you might say. We'll often ask a Canadian company if they've talked to EDC and will refer them there if they're not aware of the assistance EDC can offer."

And when you make that all-important first contact? "Be assertive," advises Egan. "Midwesterners are direct, so you've got to put your best case forward and commit to it. Everybody is busy, so you've got to know what points to make and make them quickly. You have to convince the people you talk to that you've got a product or service they really need, so you have to know what your value proposition is. And then you have to show them very clearly that this value proposition will help them with their bottom line."

As the experience of the Chicago Consulate General's trade and investment team clearly shows, the Midwest promises major business opportunities to Canadian exporters. For a forward-looking and well-prepared company, entry into this vibrant and dynamic market can be very rewarding indeed. ■

Central Europe


Photo : Getty Images/UCL

Warsaw, Poland

With the accession of Poland, Hungary, the Czech Republic and Slovakia to the European Union (EU) in May of 2004, Central Europe passed into the next phase of its economic and political transformation to stable democratic free markets. New EU investment in the region presents interesting opportunities for Canadian companies.

BY PETER BRAKE

MARKET OPPORTUNITIES

The transformation process in the accession countries has been assisted by massive infusions of EU aid and investment, aimed at promoting the development and structural adjustment of the region. Proposed EU budgetary measures for 2007–2013 may offer fresh opportunities for Canadian investors and exporters, according to Klaus Büttner, EDC Regional Vice-President for Africa, Europe and Middle East. "This region already offers the highest growth prospects in the EU and the continuation of EU funding for infrastructure and sustainable development means that the area is a prime focus of Canadian and EDC interest."

HOW BIG IS THE MARKET?

Combined Population:	64 million
GDP:	$590 billion
Canadian Trade Volume:	$1.3 billion
Canadian Exports:	$431 million

Marzena Koczut, EDC Chief Representative in Central Europe, explains that EU funding targets infrastructure projects that align with Canadian capabilities. "The EU-designated 2004–2006 Structural and Cohesion funding provided more than Euro 21.6 billion aimed at the environment, transportation, agriculture and basic infrastructure sectors. Cohesion funding for 2007–2013 is expected to be even larger, as much as 40 per cent of the total EU budget or approximately Euro 336 billion, with energy being an important new addition." Infrastructure usually refers to basic facilities, services and installations needed for the proper functioning of a society such as roads, utilities, water treatment and sewage facilities.

Infrastructure – Typical EU-funded infrastructure projects are modernization of important railway lines, construction of expressways and highways as well as improvement of existing national roads and rehabilitation of water and wastewater facilities to meet EU environmental standards. This can cover a range of regional projects such as approximately Euro 312 million for a highway in Konin, Poland; Euro 193 million for wastewater and sewage treatment facilities for various towns and cities of the Czech Republic; Euro 172 million for the modernization of the Bratislava Raãa railway system in Slovakia; and rehabilitation and food control for the Hungarian portions of the Danube and Tisza rivers, costing more than Euro 4 billion over 10 years.

Energy – This sector has a high profile in the EU and receives funding commensurate with its importance. Much of the energy production stock in Central Europe is antiquated and in need of either rehabilitation or replacement in order to conform with EU emission standards and compete with more efficient and lower-cost facilities. Renewable energy obtained through wind, water, solar and biomass generation in particular has been identified as an EU priority. The European Commission has set forth a strategy to double the share of renewable energies in EU gross domestic energy consumption from 6 per cent to 12 per cent by 2010.

The market application of the EU strategy excites Karen Mallory, EDC Advisor for EnviroExports. "As the world's largest producer of hydropower, Canada has extensive expertise in small hydro. We also have a wide variety of companies producing equipment and services with solar, wind, biomass and biogas applications, including energy storage solutions and load stabilization solutions for on- or off-grid applications." Slovakia, for example, has announced a goal to support 10 small hydro-power plants with a capacity up to 10MW each.

STRUCTURAL AND COHESION FUNDING 2004–2006*

Poland:	12.5 billion
Czech Republic:	2.4 billion
Slovakia:	1.5 billion
Hungary:	3.1 billion

** In Euros. EURO-CAD exchange rate averaged 1.58–1.61 in 2003–2004 – Bank of Canada*

Automotive – The automotive sector has been a key driver of the economic growth in Central Europe since the fall of communism. Initially, Poland was the favourite destination for European


Budapest, Hungary

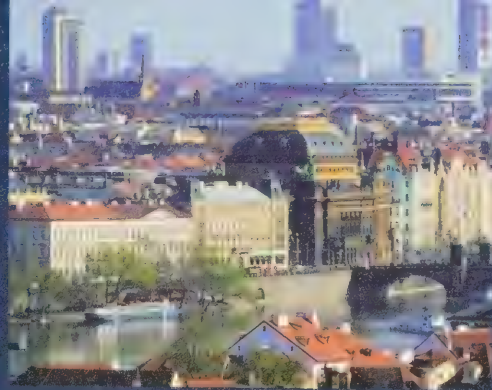
Prague, Czech Republic

Photo : ©Alamy/allOver photography


Bratislava, Slovakia

automotive manufacturers to combine lower cost production and strong manufacturing capabilities. Since then, the Czech Republic and Slovakia have also seen significant automotive investment from most car makers, making the entire region a new global hub for low cost automotive manufacturing. As many as eight new Original Equipment Manufacturer (OEM) facilities have been announced for Central Europe and within 10 years, it is expected that the production capacity will be as much as 8 million vehicles (three times the size of Canada's present OEM production). Based on this exceptional growth and Canada's world class capabilities in all facets of automotive supply chain, EDC has identified Central Europe's automotive sector as a key target for Canadian exporters and investors.

ECONOMIC CONDITIONS IN THE REGION

All four countries acceded to the EU at the same time, but distinctions remain in the rate of progress and the path taken to achieve economic parity with the rest of the EU. Poland's economy experienced rapid growth in the 1990s, following its quick transition to a market economy. Since then, it has cooled off to more sustainable growth patterns in the 3–4.5 per cent range. High unemployment remains a challenge within Poland, but it attracts investors due to its size and has been a favourite destination for Canadian exports, with the highest level of bilateral trade of any of the four accession countries.

Hungary made most of its progress in the 1990s, propelled by a major privatization drive that aimed to revive its historically strong engineering tradition. Low and stable levels of unemployment and inflation mean it can focus on attacking the large state budget deficit that stands in the way of its ambition to join the Euro monetary zone by 2008.

The Czech Republic offers excellent connections with Europe's highway network, a track record of successful R&D and quality production, and highly qualified, low-cost labour. Structural reforms are proceeding, but slowly, with key reforms in bankruptcy law, judiciary reform and business regulation likely to follow the June 2006 elections.

Slovakia embraced market reform in 1998, later than the other accession countries, but embarked on a rapid transformation. Business-friendly policies, including liberalizing the labour market and introducing a radical flat tax regime of 19 per cent, have attracted foreign investment. Unemployment remains high, but the commercial environment is now positioned for strong growth.

HOW STABLE IS THE MARKET?

Accession to the EU has meant that the political situation in these Central European countries is stable. Foreign investment is respected and welcomed, currency is freely transferable and political violence is not an issue.

Signi Schneider, EDC Political Risk Analyst, notes, however, that the regulatory framework required by EU accession is still in formulation, which can mean market risks. "The application of EU standards varies between countries and sectors and the lack of regulatory tradition means there is less transparency and a higher degree of uncertainty about application and enforcement. Eventually, there will be cohesion between the various states and the rest of the EU, but in the meantime, Canadian investors should expect due diligence requirements to be stringent and thorough."

SUMMARY

A new front in European development has been opened with the accession of Poland, Hungary, the Czech Republic and Slovakia. The true potential of Central Europe is only now coming into view, says Koczut. "The current focus is on rebuilding and rehabilitating the core infrastructure and providing the support systems for industries relocating to a lower cost region. Central Europe combines the energy and vitality of an emerging market with the developed talent and ability of a mature economic player. Canada can play a major role in being a partner to their future."

EDC HELPS FINANCE MAJOR POWER PROJECT IN POLAND

In October 2005, EDC announced funding of its participation as an Arranger in a Euro 226.5 million Term Facility for Zespol Elektrowni Patnow-Adamow-Konin S.A.'s (PAK) Patnow II Power Project, located in Konin, Poland. EDC's participation will provide direct loans up to Euro 50 million for the project. This transaction enables EDC to establish and strengthen key relationships, banking partnerships and a lender presence in the Central European market, which will benefit both Canadian and Polish business.

For more information
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Canadian Trade Commissioners
www.infoexport.gc.ca
Select *Our Offices Abroad* followed by *Europe*, then select a country from the list.

Central Europe Government websites
Czech Republic: wtd.vlada.cz/eng/aktuality.htm
Hungary: www.meh.hu/english
Poland: www.poland.gov.pl
Slovak Republic: www.government.gov.sk/english

European Union: www.europa.eu.int

Stephen Poloz,
Senior Vice-President,
Corporate Affairs and
Chief Economist

2006: Year of the Downgrade

The global business cycle is alive and well, and the sweetest part of this one is already behind us. Exporters should prepare for more challenging credit conditions in 2006.

BY STEPHEN S. POLOZ

The global economy boomed in 2004, and that momentum carried into 2005. Such business conditions always foster strong growth in credit, and competition for loan business has driven interest rate spreads both for corporate borrowers and for developing countries to their slimmest levels since the mid-1990s.

That situation is unlikely to persist through 2006. The global business cycle is alive and well, and so is the associated credit cycle. It is easy for people to think otherwise, because global business cycles evolve so slowly that they tend to be mistaken for trends. Indeed, in the past 10 years, there has been only one global business cycle: a slowdown in global growth during the various crises of 1997-98-99, then the tech wreck and 9-11, then a sputtering recovery in 2002, a fulsome one in 2003, and a boom in 2004 and into 2005.

The steady improvement in global conditions since 2001 is leading many to extrapolate another great year in 2006. The world grew by more than 5 per cent in 2004, and this momentum carried into the first half of 2005. But that is too fast to be sustained – a moderation will either occur naturally or the always-vigilant central banks will make certain of it. Throw a big increase in energy prices into the mix and we have a recipe for global Dutch disease, where energy sectors boom and other sectors struggle as their purchasing power is sucked away by higher energy costs.

In short, a recipe for significantly slower growth in corporate earnings. Companies that looked very healthy during the past 18 months, and attracted plenty of low-cost financing, will lose some of their shine in this more challenging economic environment. Highly indebted countries' weaknesses will become more apparent, too, and a busy global electoral calendar in 2006 will bring those weaknesses under the microscope. We will enter a much tougher credit environment, with less leverage than we see at present, in which investors will be more appropriately compensated for the risks they are taking. In other words, risk spreads will widen in general, and some of them might widen a lot.

On the Chinese calendar, 2006 is the "Year of the Dog." That is too harsh a metaphor for the situation we are forecasting, which is more of a post-boom normalization than a big deterioration in conditions. Nevertheless, we think it appropriate to call 2006 the "Year of the Downgrade."

Canadian exporters find themselves in a stressful environment, and there is little relief in sight. Economic growth and export sales are moderating, and will moderate further. Interest rates are rising, and they will rise further. And the Canadian dollar is at a very high level, and is likely to remain above 80 cents until we get a significant downward move in oil prices.

But the Year of the Downgrade is mostly about the health of exporters' foreign customers. Widening interest rate spreads will be merely a symptom of a tighter credit environment and increased corporate fragility. In other words, credit risk and political risk will come back onto the front burner, for the first time since 2003.

The bottom line? Exporters should not extrapolate their experience of the past 18 months into the future. A more cautious plan is now in order, as the global business cycle matures. ■

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

EDC At Large

NOW SERVING EXPORTERS TO SOUTH EAST EUROPE AND THE BALTIC STATES...

Burak Aktas is EDC's new Regional Manager for markets including Romania, Bulgaria, Turkey, Macedonia, Albania, Serbia Montenegro, Bosnia Herzegovina, Croatia, Slovenia, Estonia, Latvia and Lithuania. As Regional Manager, Aktas will work with local buyers, financial institutions, and Canadian exporters and investors to provide financial solutions in support of their transactions. Aktas will also support the underwriting of deals and will provide critical market intelligence to EDC and to Canadian exporters on business opportunities in the region. Aktas will coordinate the development and implementation of all of EDC's support for Canadian exporters in the region, and will promote EDC's capabilities and interest in the market at public events overseas and in Canada. **baktas@edc.ca**; (613) 598-3593.

NEW EDC ONLINE TOOL: EXPORT *FINANCE GUIDE*

In partnership with Team Canada Inc, EDC has developed a new guide to help exporters understand and access export related financing services online. The EXPORT *Finance Guide* centralizes information about the wide range of solutions for your financing needs based on where you are in the transaction cycle. This tool will help you determine what kind of financing you need, and where to find it. **www.edc.ca/efg**.

UPDATED ENVIRONMENTAL POLICIES

Exporters and investors involved in projects with potential environmental impacts should take note that EDC has updated and strengthened its environmental policy framework, including an umbrella Environmental Policy, amendments to its Environmental Review Directive (ERD) and Disclosure Policy, following a public comment period. Amendments include increases in transparency, process simplification, changes to disclosure practices, and clarification of standards and benchmarking. The amended policies, and comments received during a public comment period prior to their implementation, are published at **www.edc.ca/public_comment**.

GLOBE 2006: TRADE SHOW ON BUSINESS AND THE ENVIRONMENT

The 9th Biennial Trade Show and Conference on business and the environment takes place at the Vancouver Convention & Exhibition Centre from March 29–31. The GLOBE Conference will host more than 2,000 international leaders in the business of the environment from more than 80 countries. Senior business executives, government officials and leaders in environmental innovation meet every two years to exchange ideas, cultivate partnerships and do business. EDC will be one of 400 exhibitors at the trade fair, which displays a broad range of environmental technologies, services and solutions to participants from around the world. EDC also sponsors the Industry Award for Export Performance, to be distributed at the GLOBE 2006 Awards gala. **www.globe2006.com**.

CELEBRATING EXPORT EXCELLENCE

Six Ontario Global Traders Awards will be presented for outstanding exporting achievement by small- and medium-sized enterprises in April and May 2006 throughout Ontario. Now in their 8th year, the awards are organized by Ontario Exports Inc., Ontario's export development agency, in cooperation with Ontario's Ministry of Economic Development and Trade, and sponsored in part by EDC. For information on eligibility, nomination procedures and entry deadlines, see Ontario Global Traders Awards at **www.ontarioexportsinc.com/oei.** Award ceremony dates:

- Central Region – Thursday, April 6th, 2006 in Barrie
- Eastern Region – Wednesday, April 12th, 2006 in Kingston
- Southwest Region – Thursday, April 20th, 2006 in Cambridge
- Northern Region – Thursday, April 27th, 2006 in North Bay
- Provincial Awards Ceremony – May 2006 (exact date TBC) in Toronto ■

HIGHLIGHTS FROM THE STATISTICS CANADA EXPORTER REGISTER 1993–2003 (WWW.STATCAN.CA)

43,310 exporters in 2003 vs. 30,803 in 1993.

The value of exports was $348 billion in 2003, down from $378 billion in 2000, but almost double the value in 1993.

The number of exporters to China has doubled since 1998 with export values up 24 per cent.

The number of exporters to Brazil is up 20 per cent since 1998 with export values down 45 per cent.

The 50 top Canadian exporters account for just under 50 per cent of Canada's total exports, exporting 44 per cent of their export value to the United States.

Past trends indicate 50 per cent of exporters who stopped exporting will resume exporting in the future.

On a comparative basis in Canada, 4 per cent of exporters account for 84 per cent of exports; in Australia, 1 per cent of exporters account for 69 per cent of exports; in the United States, 3.2 per cent of exporters account for 68 per cent of exports.

Data does not include statistics on service exports and relates only to merchandise exports.

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca.

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

How secure are your investment loans?

With EDC Political Risk Insurance of Loans, we offer increased protection for your loans from political and economic catastrophes.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Bid Security Insurance (BSI) and Performance Security Insurance (PSI) which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

Perhaps EDC Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's website at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/financing**

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For more information on these products visit **www.edc.ca/bonding**

Online Services

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, online and anytime, with EDC EXPORT *Check.*

Want to export with peace of mind?

Give your foreign buyer time to pay and protect against nonpayment with EDC EXPORT *Protect. Quick. Secure. Affordable.*

Looking for information on export finance?

The EXPORT *Finance Guide centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.* www.edc.ca/efg

For more information on these products visit **www.edc.ca/e-services**

Online Information Services

Want some market insight that will actually help you make a decision?

Check out EDC EXPORT *Market Insight – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.*
www.edc.ca/e-reports

Are you ready to enter the export market?

Test your readiness by completing EXPORT *Able?, an online questionnaire to help you prepare your entry into foreign markets.*
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Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered, and you can usually get coverage within 24 hours. Call our Small Business specialists at **1-888-332-9398**.

Could you use more working capital?

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Looking for fast financing for your small business?

In partnership with Northstar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC Simplified Contract Bonding, a streamlined application/approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

For more information on these products visit **www.edc.ca/sme**

Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

TOP TEN

QUESTIONS WE HEAR AT EDC

Many Canadian companies aren't clear on the products and services that EDC provides. Based on the questions put forward by Canadian exporters and investors, our in-house sales and support team has compiled a list of the top 10. In this issue we will examine three:

---

1. WHAT IS EDC, ANYWAY?

Export Development Canada (EDC) provides financing and insurance to help Canadian exporters and investors expand their international business. EDC helps 7,000 Canadian companies and their global customers in up to 200 markets worldwide each year. EDC is financially self-sustaining and is a recognized leader in financial reporting, economic analysis and human resource management.

2. WHAT DOES EDC DO?

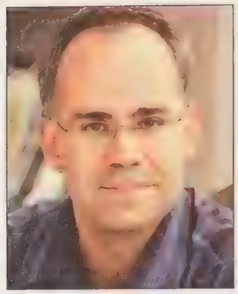
Our basic role is to help Canadian companies reduce the financial risks of selling their goods and services outside of Canada. For example, if you're dealing with a new customer and have concerns about their ability to pay, we can insure the sale so that you'll get your money even if your customer defaults. We can also help you improve your cash flow (banks look at our insurance as a guarantee of payment) and get bonds demanded by your customer as a condition of your contract. These bonds act as guarantees to your customer, committing you to deliver on the specifics in the contract.

Our major services include:

- Accounts Receivable Insurance to protect you if your customer can't or won't pay.
- Performance Security Insurance to protect you if your customer cashes in your bond when you *have* fulfilled the terms of your contact. This is called "wrongful call."
- Contract Frustration Insurance to cover your risks on one contract sale. (Accounts Receivable Insurance covers *all* of your receivables under all of your contract sales).
- Political Risk Insurance to protect you against political or economic upheavals in your market.
- Bonding products to help you make the sale when your customer wants a guarantee that you will deliver on the terms of your contract. This could include bonds for when you are bidding on a contract, as well as when you have won the contract.
- Financing solutions to help you with issues such as pre-shipment and customer financing.

3. CAN YOU GIVE ME MONEY OR HELP ME WITH MY CASH FLOW?

EDC doesn't provide direct financing, such as loans, to Canadian companies. Instead, we work with your bank to help you get the cash you need by basically providing a guarantee to your bank that they will be paid. This gives the bank the confidence it needs to extend more credit to your business which, in turn, means you can take on more business. This is how we help to improve your cash flow. For more information about the wide range of solutions available to meet the financing needs of Canadian exporters visit the EXPORT *Finance Guide* at **www.edc.ca/efg**.



ExportWise has been around for some 20 years in one form or another. Last year we decided it was time for a reality check to see if the magazine is meeting your expectations. We undertook focus group testing in different regions of Canada, hopeful that our efforts and assumptions about the magazine's content were close to the mark, but ready for feedback on how to improve it.

Here's what you told us: You want the articles to provide practical insights on which you can act. You want to see more articles on overseas markets, but also more articles on the United States. You need more leads on who to contact to follow-up on ideas in the articles, and you want us to showcase interesting and creative ways EDC has supported exporters to help you better understand how we might serve you in ways you had not previously considered possible.

Those are just some highlights from a number of great ideas that we will be addressing in the months ahead. We would very much like to hear from more of you about how the magazine is or could be useful to you.

Michael Toope
mtoope@edc.ca

In the fall edition, on p. 20 we should have said that "Canada's goods exports to Venezuela reached $474 million in 2004." Canada's trade with Venezuela in 2004, when Canadian exports to and imports from Venezuela are combined, reached $1.8 billion. We also omitted contact information for Canada's Trade Commissioner Service in Venezuela. They can be reached at the **www.caracas.gc.ca** and at **crcas-td@international.gc.ca**.

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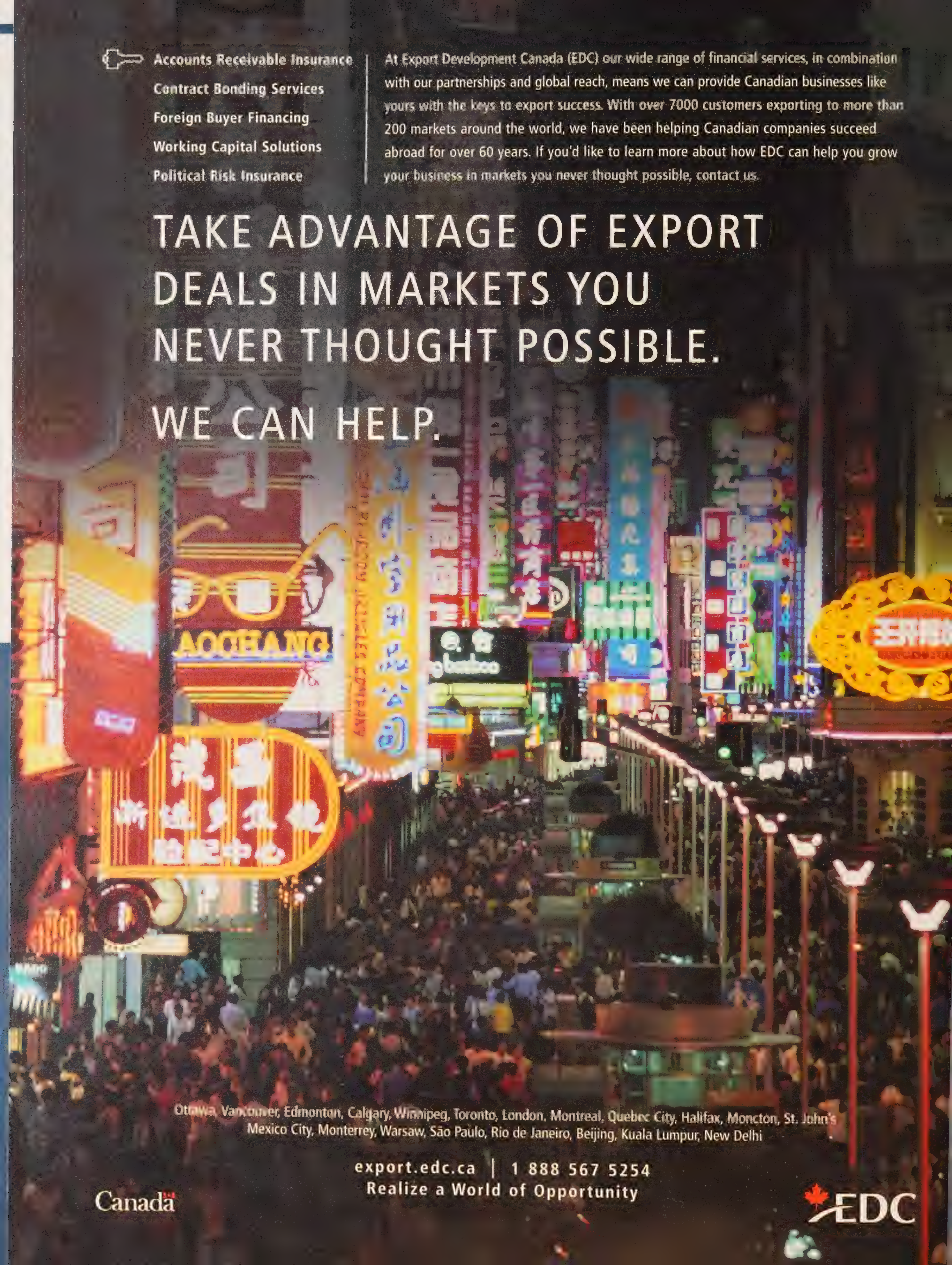
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Welcome & BEM VINDO to Business in Brazil

Rob Wright
President and CEO

Our seasons may be at odds with each other, but our economies have many similarities. I'm talking about Canada and Brazil, having returned from a productive visit with EDC customers and banking partners in Brazil this past March. I'm very encouraged by the economic progress and rich business opportunities in this lush country.

In many ways, Canada and Brazil have similar economies, with a mix of high technology, manufacturing and abundant natural resources. We also share some big challenges, such as dealing with currency fluctuations generated by our natural resources and building infrastructures across our vast lands.

From the increasing activity by foreign investors in Brazil, it is evident that Brazil's economy is growing. This has helped drive the country's currency up, enabling more Brazilian companies to increase their productivity. Imports of new machinery have increased by more than 30 per cent in the past year. In addition, the government has put in place a public-private-partnership law to encourage the development of infrastructure projects. All this is good news for Canadian companies who would like to grow their exports or investments in the region.

There is even a "trade tradition" between our two countries, started by Canadian energy giant Brascan, which built Brazil's power infrastructure in the early 1920s and is still a major force in the region. EDC is building its own traditions in Brazil, as we are now called upon by 70 per cent of Canadians exporting and investing in that country to facilitate their transactions.

In 2005, EDC supported close to $60 billion in Canadian business worldwide through its insurance, financing and bonding programs. Of this total, some $13 billion was in emerging markets – almost half of that in Latin America, mainly Brazil. In Brazil alone, EDC has done more than $7 billion in business over the last five years on behalf of Canadian customers, in industries such as mining, energy, forestry, telecommunications and others.

> In 2005, EDC supported close to **$60 billion in Canadian business worldwide** through its **insurance**, **financing** and **bonding** programs. Of this total, some **$13 billion** was in emerging markets – almost half of that in Latin America, **mainly Brazil**.

This trip also helped strengthen EDC's already solid relationships with Brazilian banks like Unibanco and Banco do Brasil. EDC provides USD 65 million in lines of credit to these and other banks, money that is then lent to creditworthy Brazilian buyers of Canadian goods and services. We are also collaborating with another key government financial institution, BNDES, to generate more Canadian participation in their clients' projects.

EDC will continue to serve as a catalyst that helps expand business between Canada and Brazil. While I was there, for example, EDC signed a financing transaction with Votorantim Participacoes (VPAR), one of the largest business groups in Brazil and a key buyer of Canadian exports. Its companies have a major share in everything from cement, paper and aluminum to energy and orange juice. EDC will be the lender of record for USD 82 million within a larger syndicated facility. That's on top of a 2005 loan of USD 100 million.

EDC's solid relations with Brazil are largely thanks to the activity of our permanent representatives in the region, namely our Director for Brazil and the Southern Cone, Claudio Escobar, in Sao Paulo, and Rio-based Manager Fernanda de A Custodio. They also work closely with the Ambassador and staff at the Canadian embassy and consulates in Brazil to serve Canadian companies even better.

I believe that Canadian companies have the potential to do much more business in Brazil over the next five years. This is especially true as Brazil continues reforming its economic and political processes, as more Canadians establish Brazilian affiliates and as EDC forms new ways to finance more Canadian investments in such a dynamic market. ■

Rob Wright
President and CEO

ExportWise

Cover photo: © Dan Lamont/Corbis

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Aecon Group

Building Ecuador's International Airport

BY BRENDA BROWN

"Persistence" is how Bill Pearson, Executive Vice-President for Toronto-based Aecon Group Inc., describes his company's approach to a new airport project in Ecuador. Aecon has spent the past 10 years planning and collaborating with four public-sector lenders, three private-sector partners, two Canadian government agencies and several levels of government in Ecuador to close down the airport located in the downtown core of the capital city of Quito and build a new one 25 kilometres north of the city.

"The original airport was built 70 years ago and the city basically grew up around it," says Pearson. "Traffic has increased about 10 per cent annually for the past decade and with no place to grow, the city was losing out on the economic benefits of having a larger international airport with a free trade zone which will attract manufacturing and create jobs."

Aecon first got involved in 1996 when Ecuador called for conceptual proposals to build the new airport. Aecon, Airport Development Corporation, Marshall Macklin Monaghan and an Argentinian partner at that time submitted the top proposal. Unfortunately, the project stalled until 2001 when Aecon heard about the project's revival.

This time the government used the Swiss Challenge Process whereby Aecon put together a comprehensive proposal including undertaking feasibility, environmental and social studies. The government then used this information to open up bidding. The Swiss Challenge process allows third parties to make better offers (challenges) for a project during a designated period. The original proponent then has the right to countermatch any superior offers.

"There's a lot of risk involved in taking on the Swiss Challenge and we simply didn't have the money to fund all of this upfront work," Pearson says. "However, CIDA's Canadian Project Preparation Fund helped to cover part of these expenses. If you win the contract, you pay the money back and if you don't win, it's considered a grant."

In the end, no other bids were received despite a deadline extension (the process was launched shortly after 9/11 so additional time was given to allow other companies to respond). To ensure that Aecon's bid was fair and reasonable, a review was conducted by an independent third party.

> "It's always **immensely helpful** for everyone's comfort level when you have the **Government of Canada backing you.**" – Bill Pearson, Executive Vice-President, Aecon Group

In September 2002, Aecon and its new partners, operating under the name Quiport, were awarded a 35-year concession contract to design, build, finance and operate the new airport and the concession rights to continue operating the existing airport until construction is complete, expected in 2010. In November 2002, Aecon and its partners, through Quiport, took over operations of the existing Marucal Sucre Airport through a consulting contract.

Aecon's partners are infrastructure development firm Andrade Gutierrez Concessões of Brazil, the Airport Development Corporation of Toronto, and HAS Development Corporation of Houston, Texas.

The cost is USD 587 million, which will be provided through sponsor equity contributions from Aecon and its partners, and financing from the project senior lenders – U.S.-based Overseas Private Investment Corporation, Export-Import Bank of the United States, the Inter-American Development Bank and EDC – and through operating profits generated from the existing Quito airport during construction.

The biggest challenge is process, says Pearson. "You are working in an emerging market such as Ecuador where the credit rating is not high. The private banks wouldn't touch this project so we ended up working with four public lenders for the first time, all of which have their own vastly different processes. You've got to just keep jumping through hoops until everyone is satisfied."

For example, the Ecuadorean environmental laws do not meet international standards, which meant Aecon had to do

Increased traffic and no place to grow. Ecuador will relocate its existing international airport in downtown Quito (pictured here in November 2002, after an eruption of the Reventador volcano caused one million tons of ash to fall on Quito) 25 kilometers north of the capital city.

Photo REUTERS/Mauricio Mino

additional work at its own expense. This work included archeological studies, public consultation and an examination of the impact this development would have on women and local communities.

Pearson adds that they were fortunate to work with partners such as Andrade Gutierrez Concessões, a construction firm with 18 years' experience working in Ecuador, and the Canadian Commercial Corporation, which is acting as the Contractor of Record, with the work being subcontracted to Aecon and AG Construction, the parent company of Andrade Gutierrez Concessões. Detailed designs will be carried out by Marshall Macklin and Monaghan of Toronto. He is also quick to credit EDC which provided both financing support and insurance.

"It's always immensely helpful for everyone's comfort level when you have the Government of Canada backing you," he says.

It's not unusual for a deal of this complexity to take four years or more, says Diane Belliveau, Financial Services Manager for EDC's Mining, Infrastructure Development & Services Team. "It's a complex deal involving many parties working in a market where most of us only had limited exposure. A comprehensive environmental assessment had to be done which took a year, as well as drafting and re-drafting of complicated plans and legal agreements."

The new Quito International Airport is a large Greenfield project that was categorized as Category A by EDC as well as other lending institutions, says Belliveau. Category A projects are those that have the potential of causing significant adverse environmental impacts.

An environmental impact assessment meeting World Bank guidelines was carried out by Komex International, a Canadian-based environmental consulting company. After posting its potential support to the project on its website and determining that the project met its Environmental Review Directive requirements, EDC approved support to the project.

"EDC also gained valuable experience and exposure as an international player. We have other deals in the pipeline and we can use the lessons learned in Ecuador to structure those deals and mitigate the risks for both our customers and EDC," adds Belliveau.

Dominique Bergevin, a Political Risk Analyst with EDC, says that political instability in Ecuador and the revolving-door bureaucracy has created a challenging environment for foreign investment.

"Anti-government protests and strikes are common and can influence the government's course of action," she says. "Foreign investors operating in Ecuador have been engaged in contractual disputes with the government over fiscal matters." Companies are encouraged to assess the risks carefully, Bergevin advises. "Sectoral considerations and a strong corporate social responsibility strategy can serve to mitigate some of the political risks."

Top of Pearson's "to do" list in any emerging market is to hire a good local lawyer who has worked with foreign companies and understands the process of doing business in Ecuador.

"We would never have been able to sign a deal of this complexity without a knowledgeable local lawyer," Pearson says. "You can't go in naively; every country has different rules and regulations and a particular way of dealing with people and business. You can't expect to know these intricacies, so it's also essential to work with a good local partner."

Pearson adds that it's important to settle in for the long haul by picking a few key markets that you want to pursue: "It takes time to make the right contacts and establish the trust that's needed to operate in any country outside of Canada. You can't expect to get in and out quickly and make a few bucks. You need to be committed and patient – then, and only then, will you start to see the payoff." ■

C-TPAT: Security Compliance Loan Program

Photo: © Microzoa/Getty

BY BRENDA BROWN

As a follow-up to "Avoid Potential Border Delays: Join C-TPAT" (*ExportWise* Winter 2006), this article will examine how joining the Customs-Trade Partnership Against Terrorism (C-TPAT) can become an essential business tool, as well as a new EDC loan program to help Canadian suppliers handle the costs of becoming compliant.

WHY C-TPAT MATTERS

C-TPAT is a joint U.S. Government-business initiative to build co-operative relationships that strengthen overall supply chain and border security. Essentially, through C-TPAT, U.S. Customs and Border Protection (CBP) is asking businesses to ensure the integrity of their security practices and communicate their guidelines to their business partners within the supply chain.

Although it is a voluntary program, there are indications that large buyers in the United States are beginning to insist that suppliers, including Canadian exporters, participate in the C-TPAT program. Additionally, the transportation sector is beginning to provide preferential pricing to Canadian exporters who have invested in the C-TPAT program.

PERFECTA PLYWOOD'S EXPERIENCE

Perfecta Plywood Inc. of Saint Hyacinthe, Quebec has already become C-TPAT compliant. François Dugas, President of Perfecta, notes that with 40 per cent of his goods moving across the American border, high-tech security is just one of his new business realities.

"We work in a 'just-in-time' inventory world," says Dugas, "and our company's reputation has been built on respecting delivery expectations. We also recognized that C-TPAT is more than just a security issue; it's an essential marketing tool that we can use to keep and attract new business because our customers will know that we have taken steps to guarantee our delivery."

Perfecta also worked with its supply chain to ensure that its suppliers had security measures in place. "We have more than 50 major suppliers and we import our raw products from China, Africa and Brazil. We asked each supplier to fill in forms to ensure that they could meet the requirements under C-TPAT and that their suppliers, in turn, had security measures in place."

"C-TPAT compatibility is similar to ISO in that it's not just a one-time investment, it's a continuous process. You have to constantly be on top of it, refining your processes, retraining your people, ensuring your suppliers and your suppliers' suppliers are security-conscious because ultimately, if something goes wrong, it is your responsibility." One payoff is faster U.S. border crossings where Dugas says his truck drivers barely touch the brake pedal.

THE COST OF COMPLIANCE

There's a price tag attached to becoming C-TPAT compliant; companies must meet certain physical, personnel and procedural security requirements. Dugas estimates that for Perfecta, the process cost about $250,000, and notes that compliance entails an ongoing commitment to security standards.

Coming up with the cash to pay for the necessary security upgrades is the number one issue that companies face, says logistics industry expert Bob Armstrong, Chairman of the Canadian Council for the Americas, Vice-Chairman of the Brazil-Canada Chamber of Commerce and newly-minted President of Atlas Trade Corp. Inc. "Integrating security processes and measures into your processes is not cheap. And then you have to worry about your supply chain. Someone on your team has to become *the* security expert and ensure that security remains top of mind."

EDC HELPS WITH COMPLIANCE EXPENSES

To help companies deal with these additional expenses, EDC has developed a new Security Compliance Loan program under which Canadian companies can apply for a three-year loan of up to $150,000. Up to $5,000 of that loan can be used to pay for upfront advisory fees to complete, for example, the paperwork to become C-TPAT compliant. To qualify for the loan program, Canadian companies must be the Importer of Record into the United States and have been in business for at least three years.

Mike Neals, EDC's Vice-President of Marketing, said the need for this product was highlighted by exporters during an EDC survey of their needs in the fall of 2005. More than one-third of those surveyed cited border delays as an emerging issue. "Further research with logistics companies validated our survey results," says Neals. "We found that there were a growing number of Canadian companies that faced the possibility of long delays at the border because they were not compliant with these measures. Many of the exporters cited cost as a reason for not applying for certification."

Armstrong points out that this new loan program developed by EDC will be instrumental in helping companies make the leap. "This is a 'just-in-time' solution for a 'just-in-time' problem. Giving companies access to the cash they need to make the necessary upgrades will encourage them to take a more proactive approach, rather than feel like they are being pushed into something they can't afford. This is a global force that can't be stopped; companies will be forced to prove their security savvy or face the prospect of losing customers."

ENHANCED SECURITY IS HERE TO STAY

"We've always been a forward-looking company and recognized that this is just the beginning," Dugas affirms. "I fully expect the trend to be global."

Armstrong says this is a bigger concern for small companies who traditionally depend on their logistics company to provide the needed security. "With C-TPAT, security issues have come back home and companies have to start thinking about doing things such as employee and supplier background checks, enhanced security at the front desk and at the loading dock. Gone are the days when employees could slip out a side door for a break. That door now needs to be secure with tight controls over who has access to which areas of the business."

Armstrong has guided about 25 companies through the C-TPAT process and although it requires a great deal of paperwork, preparation and thought, there are unexpected benefits such as companies reporting a significant decrease in thefts, particularly on the shop floor.

Dugas agrees that paperwork – and lots of it – is just part of the game. "You also have to understand that this is a new program and so the rules are constantly changing. You have to keep on top of those changes to ensure that you continue to meet the requirements. That's a lot of extra work, but in the end it's worth it if it means you can guarantee delivery to your customers." ■

For more information on EDC's new Security Compliance Loan program to help Canadian companies become C-TPAT compliant, call 1-866-248-4280 or visit www.edc.ca/CTPAT

There's a **price tag attached** to becoming C-TPAT compliant; companies must meet certain **physical, personnel** and **procedural** security requirements.

Managing Credit Downgrades in the Auto Sector


Photo: © Danny Lehman/Corbis

BY MICHAEL TOOPE

With Original Equipment Manufacturers (OEMs) GM and Ford and several of their major parts suppliers experiencing credit downgrades over the past year, concerns arose over the potential impact on Canadian tool and die, mould and parts manufacturers if any one of these companies were to file for bankruptcy.

The sales of many Canadians auto parts suppliers are tightly linked to the struggling OEMs. Suppliers are locked into "pull" or long-term supply contracts. They must ship parts on a just-in-time basis with no ability to adjust production to mitigate potential losses in uncertain times. Since a bankruptcy filing by an OEM could jeopardize their financial viability, many suppliers have been looking for ways to mitigate their exposure to struggling OEMs under long-term supply contracts. At the same time, credit insurers have been pulling back or limiting their coverage on the OEMs, leaving few alternatives for exporters.

As a result of the difficult situation their industry is facing, suppliers needed a new source of protection against a buyer's bankruptcy filing, because losing up to 60 days of receivables could seriously impair cash flow and eliminate profitability for the entire year. Since capital markets are volatile and credit insurance markets have limited capacity, EDC developed the Insolvency Excess Loss Insurance policy to provide exporters with the necessary risk management tools.

Guaranteed protection. Once the policy is issued, it cannot be cancelled by EDC because of deterioration of the OEM's credit rating

HOW THE NEW POLICY WORKS

Exporters in this sector can purchase a six- or 12-month insurance policy covering their shipments to the OEM in the 60-day period prior to the commencement of bankruptcy or insolvency proceedings against the OEM. Such proceedings must commence during the policy coverage period.

Under the policy, exporters must assume a reasonable first-loss position, equivalent in dollar terms to 10 days of shipments to the OEM. Exporters can choose to purchase excess loss protection from EDC in an amount equivalent to up to 80 days of shipments to the OEM, thus reflecting a potential overstocking by the OEM. "The Excess Loss Policy is structured to complement an existing Account Receivables Insurance cover from EDC or from another insurer, or can be used on its own," adds Daniel Primeau, EDC's Chief Underwriter, Contract Insurance & Bonding.

HOW ARE SHIPMENTS MEASURED?

EDC calculates exporters' expected average daily shipments. If an OEM becomes insolvent, the exporter will assume a loss for an amount equivalent to 10 times their average daily shipment to that OEM. EDC's policy will then kick in and cover them for an amount equivalent to up to 80 times their average daily shipment, depending on how much coverage was purchased.

WHO CAN PURCHASE THIS INSURANCE?

At this time, the cover is available only for GM suppliers. Any Canadian-based auto parts supplier to GM with long-term supply contracts that require the supplier to ship, even if the OEM's credit rating deteriorates during the term of the contract, can apply for this new policy.

Primeau says the new program illustrates how EDC can rapidly adapt to market needs and "will enhance our existing relationships with exporters, banks and brokers. The program illustrates EDC's commitment to a strong, competitive automotive supply chain in Canada."

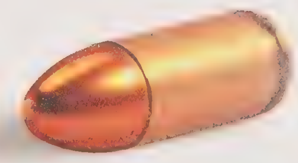
For more information: 1-888-332-9398; www.edc.ca/auto.

Forensic Technology

Ballistics ID Company Targets Export Markets

BY JANE DALY

Like millions of North Americans, Robert Walsh enjoys watching crime investigation shows such as *Law & Order* and *CSI*. But for Walsh, the shows have an added kick – his company's technology plays a supporting role in solving many of the cases.



Walsh is the President of Forensic Technology (WAI) Inc., a Montreal-headquartered firm that pioneered automated ballistics identification in the early 1990s with IBIS® (Integrated Ballistics Identification System). Since then, the company has grown from a few employees and one main product to 200 employees worldwide and a full suite of solutions for ballistics and firearms identification. But according to Walsh, what's even better than seeing the company's products on television is knowing they've helped solve 45,000 real-life investigations in 39 countries.

"Every piece of evidence has a story to tell," says Walsh. "The IBIS® system can compare thousands of bullet images in minutes. It would take a human a lifetime to do this using a comparison microscope."

Interestingly, Forensic Technology began exporting its solutions long before it sold products domestically. "When we started out, our market was limited to the forensic laboratory," says Walsh. "There are limited labs in Canada, so it was necessary to export. We sold to more than 25 countries before we sold to Canada."

HITTING THE ROAD: HOW TO GET THOSE FIRST SALES CONTACTS

"In the early days, we would pack up a rental truck and lug IBIS® around the United States to demonstrate the system," says Walsh. "It was brand new technology that no one had seen before. We also attended trade shows and eventually broadened our reach through local agents."

But exporting can be challenging, especially since Forensic Technology, a registered ISO 9001 company, prides itself on quality. "One of the biggest challenges is distance. We want to respond to our clients as if we were located around the corner, 24/7. The only reasonable way to do this was to establish offices on four continents. We can speak to our clients in the same time zone, and we're just a short flight away if an on-site visit is required."

Another challenge is adapting to various cultures. "One of the dangers is using one's own culture as a benchmark," says Walsh. "We place a different value on time in North America. Everything needs an immediate response. That's not the same with other cultures and to expect it might cause a strain in the relationship. To adapt, we've put regional managers and sales directors in place who either represent the group they're dealing with, live in the territory or who, at the very least, 'speak the culture'."

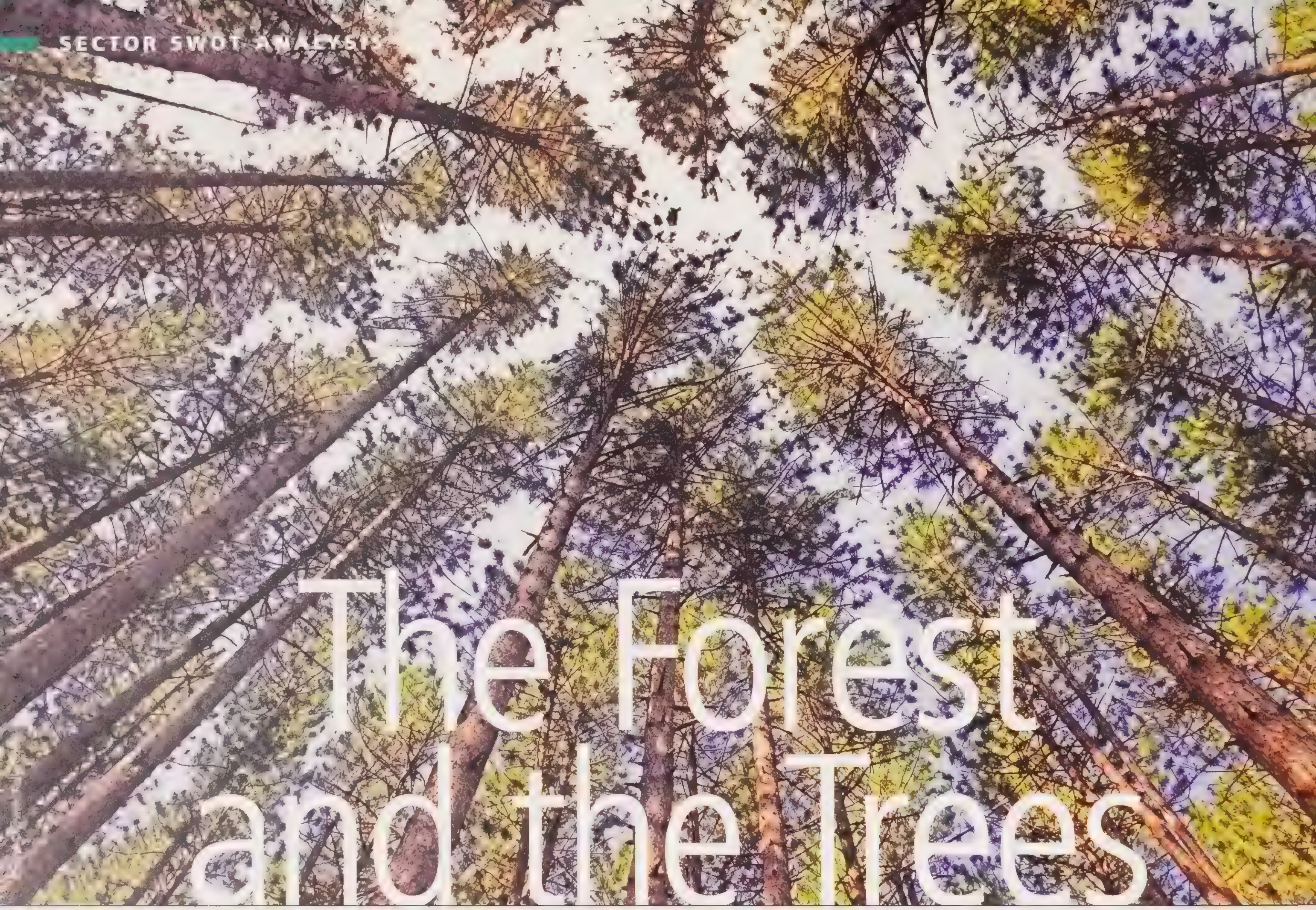
Finally, there is the challenge of financing deals. For many years, Forensic Technology has used EDC bonding, insurance and export financing services to support a number of its export sales, including transactions in Kenya, Algeria, Belgium, Saudi Arabia, Jamaica and India. It also uses short-term credit insurance, under which EDC covers 90 per cent of the credit risk related to its open account foreign sales of its systems or services. EDC also facilitated sales to Trinidad and Tobago's Ministry of National Security by providing a line of credit to the Trinidad government.

"We use EDC services, such as letters of credit and bonds, to free-up our capital for other purposes," says Walsh. "We also use letters of intent, to provide capability to our buyers in other countries."

The fact that EDC is a Canadian Crown corporation is also a bonus, Walsh adds. "It always helps to have the government on our side. It adds strength and credibility and takes the risk away from the buyer. It also offers competitive financing for them."

Overcoming these exporting challenges has helped Forensic Technology prosper. "We're staying one step ahead of the bad guys," Walsh sums up. "What satisfies me the most is that we're making the world a safer place."

Company:	Forensic Technology (WAI) Inc.
Business:	Develop solutions for the public safety arena
Location:	Headquarters in Montreal with offices in Washington, D.C. and Largo, Florida; offices in Bangkok, Dublin and Johannesburg
Employees:	200
Exports:	95% (approx.) 2005 Export revenue estimated at $37 million
Markets:	World
Contact:	www.forensictechnologyinc.com; 1-888-984-4247



The Forest and the Trees

Canada's Forestry Industry in Transition

BY DENNIS AND SANDI JONES

Few images of Canadian industry are more enduring than an axe-swinging, plaid-shirted lumberjack felling a gigantic pine in the depths of a northern forest. This image has its foundations in something very real, even if the lumberjack now wears a hard hat and pilots a huge machine that can harvest a good-sized tree in a few moments. The fact is that Canadians have been hewers of wood on a large scale for a long time, and we've done very well from it indeed.

TRADITIONS AND TRANSITIONS

Canada has traditionally been, and still is, the world's largest single exporter of lumber, pulp, paper and wood products. Our share of the global market in these commodities has hovered around 20 per cent for the past two decades, and we continue to be a dominant player in the sector. The industry is of vital importance to the national economy; according to Statistics Canada, the sector's export revenues added up to $44.3 billion in 2004, a full 3 per cent of the country's GDP. Moreover, it employs about 267,000 people and, overall, probably contributes directly and indirectly to the employment of one million Canadians.

The past few years, though, haven't been easy. In just one subsector – newsprint exports – our global market share has dropped by half. Among our problems are the tougher competition from Europe and from Central and South America, the perennial softwood lumber dispute with the United States, and falling prices caused by world oversupply. But the industry has a tradition of resilience and is capitalizing on its strengths. The British Columbia interior, for example, has turned itself around by re-equipping with new technology and manufacturing processes. In spite of all adversity, the B.C. interior had the most profitable forestry segment in North America in 2004.

Photo: © Reza Estakhrian/Getty

▲ Canada's forestry sector contributes directly and indirectly to the employment of one million Canadians.

REINVENTING OURSELVES

What exactly are our strengths? We have several, says David Gray, Vice-President of Mill & Timber Products Ltd., a sawing company located in Surrey, British Columbia. "The Canadian forestry industry has an excellent infrastructure of transportation, supply and materials. We have immediate access to everything we need, from replacement motors to lubricants. We have a rule of law, which means that we meet our contractual obligations. We have a workforce that's educated for the high-technology side of the industry. Those factors aren't present in many of the places we're competing with, and having them provides us with a significant advantage."

We're also capable of reinventing ourselves very quickly, but reinventing the industry isn't just a matter of upgrading our production technology. As Ken Montgomery, a Senior Analyst for Industry Canada's Forest Industries and Building Products Directorate points out, we're also adept at developing new products.

"Panels are now very important in the export market," he notes. "Oriented strand board (OSB), which was pioneered in Canada, has taken over from the traditional plywood that was formerly used for floors, walls and roofs, and last year we produced about 9 million cubic metres of these materials. We've also made good progress in value-added sectors such as manufactured and modular housing, and windows, doors and cabinets. Those last three subsectors were once a purely domestic industry, but now we export about $4 billion worth of these products annually."

Altogether, in fact, the value-added sector accounts for one-third of Canada's total annual shipments of wood products. It's rapidly becoming more important in the Quebec industry as well, according to Michel Vincent, Director of International Trade for the Quebec Forest Industry Council. "In this province especially," says Vincent, "we have to work rapidly toward value-added products because of the U.S. tariffs, which apply to the lower-grade wood that makes up more than a third of Quebec's harvest. We're better off keeping this wood here in Quebec and to find ways to use it in new products."

PARADOXICAL PRESSURES

Paradoxically, though, the pressures of globalization and the softwood dispute with the United States may be contributing to Canada's ability to maintain its long-term strength in the sector. Jim Farrell, Director General of Natural Resources Canada's Policy, Economics and Industry Branch, thinks there's a good argument for this possibility. "Because of these pressures," he observes, "we've had to invest in ourselves in order to be more competitive. We've had to find ways to get our unit costs down by, for example, going bigger in the interior of B.C., and at the same time we've had to be innovative about making our products out of lower-quality fibre, particularly in eastern Canada. As a result, we've built the most competitive softwood lumber industry in the world."

Still, some parts of the industry are proving to be more competitive than others. "The balance sheets are all over the map," says Farrell, "but for the country in general, they show that newsprint, paper and pulp companies aren't making money, while companies whose primary product is lumber and panels, mainly in Western Canada, are seeing profits."

BUSINESS NOT AS USUAL

Several domestic factors lie behind the industry's spotty performance during the past few years. One, which was many decades in the making, has been our conviction that we could remain the world's largest forestry exporter just by doing what we'd always done. Back when newsprint was made almost exclusively of black spruce, and when eastern Canada had a corner on this type of wood, that might have been true. Now, however, paper technology can make newsprint and writing paper out of almost any wood, and even out of non-wood fibre. As a result, non-Canadian companies that have access to huge eucalyptus and pine plantations in South America have abruptly become dangerous competitors.

WHAT MAKES US STRONG?

- An excellent transportation, supply and materials infrastructure.
- A legal system that ensures that contractual obligations are met.
- A workforce educated for the high-technology side of the industry.
- An ability to adapt and innovate with respect to both processes and products.
- A long history of experience, expertise and success in the global forestry market.

As a result of our relaxed attitude in the past, says Vincent, we didn't innovate quickly enough. "During the 1990s, the Quebec sawing industry was one of the most advanced in the world. But for the past five to eight years, our investment level has been too low. That's been partly because of the costs to our producers of the U.S. tariff, but the bottom line is that we didn't advance as fast as we should have."

Low rates of innovation can be blamed at least partly on low rates of reinvestment, adds Farrell. "Lack of reinvestment has certainly been a huge problem during the past 10 years. The newsprint companies, for instance, have an average rate of return on capital of 3.5 to 4 per cent. This isn't enough to appeal to financiers as a good investment, but without investment in a capital-intensive industry, you

Photo: © Dan Lamont/Corbis

High energy costs for pulp and paper companies is a cause for concern (Prince George sawmill operation).

can't compete. That's a big challenge, because you can get into a death spiral in terms of productivity and competitiveness if you don't reinvest. My hope is that as we move out of the current phase of closures, transitions and restructuring, our companies will become fewer but larger, and although they'll produce less, they'll do so at a lower cost. That will give them some breathing space to generate cash flow that they can reinvest in themselves and use to attract outside investment."

RIDING OUT THE STORM

Another problem, especially for pulp and paper companies, is energy costs. This part of the industry is one of the heaviest users of electricity in Canada's entire manufacturing sector, and the price of electricity keeps going up. Ontario, for example, has one of the highest electricity costs in North America. Again, it's a problem that has its roots in the assumption that the future will resemble the past. Energy was so cheap for years that the industry tended to not pay much attention to it, but now it's expensive. That expense is another factor that's undermining our pulp and paper industry's ability to compete abroad.

Then there's the question of regulation, which varies from province to province. In Quebec, says Vincent, inappropriate regulation has made it harder for the industry to adapt to changing conditions. "Every tree growing in the forest belongs to a particular mill," he points out. "You can't sell it to a competitor or another mill, or redirect your wood to other mills to be more efficient. B.C. had similar problems in the early 1990s, but out there they realized that if they wanted to consolidate the industry, they'd have to let the industry do what it needed to with its wood."

Then there's the rise in the value of the Canadian dollar, which has brought problems including difficulties with labour flexibility in some parts of the sector.

In addition, there's a pine-beetle epidemic that has already affected more than eight million hectares in British Columbia. In some ways, as David Gray says, the past few years have been "a perfect storm" for the industry.

WHERE DO WE FALL SHORT?

- Assuming that our market position was assured despite changing global market conditions.
- Neglecting to innovate quickly enough.
- Lack of reinvestment in the industry.
- Rising energy expenses and the increased value of the Canadian dollar.
- Regulatory problems that hinder adaptation to changed conditions.

LIGHT ON THE HORIZON?

Storms do end, though, and there are opportunities ahead that will brighten the forestry industry's future. One of these is the potential for exporting Canadian timber and timber-construction technologies (both residential and non-residential) to new markets that have little or no background in this type of building. Katharine Funtek, Deputy Director of the Department of Foreign Affairs and International Trade's (DFAIT) Market Support Division, sees these markets as holding great promise.

"China is one such potential customer," she observes, "and the forestry sector is working with provincial and federal government departments to position Canada in that market. For example, we're having a lot of success with the Chinese government in establishing regulatory requirements, such as fire and construction codes, for building with wood. These codes are the foundation for quality timber construction, and China will need programs to train both builders and inspectors in using Canadian wood technology. Canada is already taking the lead on this, and we've been very successful with it, not only in China but also in Japan and other places. As a result, the partnership between Canadian governments and the forestry industry is providing a foundation for opportunities down the road, particularly in the very large markets that are of most interest to us."

The construction side of the industry, adds Funtek, is one we should push more aggressively. Many earthquake-prone countries, such as Japan and Pakistan, could improve public safety if they used Canadian wood technology for residential and non-residential construction; properly put together, wood-framed buildings can ride out an earthquake that turns concrete and brick structures into lethal avalanches of rubble. "This is an area where we have a lot of strength," Funtek says, "and we ought to be getting the message out more energetically than we have been."

BUG-FREE BUILDING

As part of that message, we'll have to change the perception in some of these large markets that wood construction is of inherently poor quality, and that it doesn't last in damp environments that

promote rot, mould and termite infestations. These are legitimate concerns, but Canada has been very good at developing wood products, applications and design systems that deal with all these difficulties. As we make these advantages more widely known, we should see our non-North American markets expanding for both our wood technology and the products that go along with it.

One risk of operating in the wood-construction market is that local builders may disregard the very specific and essential practices that make our technology work. If that happens, structural problems with the buildings could turn our opportunities into liabilities. That's why, as mentioned earlier, it's so crucial for the industry and the Canadian government to work with Canadian exporters, experts and local authorities to make sure the necessary monitoring and quality controls are in place, and that these controls meet or surpass the local building codes and standards.

The Canadian government, for its part, can certainly help strengthen the industry's grasp of its new opportunities. The Canada Wood Export Program, under the aegis of Natural Resources Canada, is one such initiative.

WHERE DO OUR OPPORTUNITIES LIE?

Developing new value-added products.

Pursuing new markets for Canadian wood-construction technologies.

Expanding our residential and non-residential building markets in earthquake-prone countries.

Changing the perception in some markets that wood construction is inadequate for local conditions.

Reducing our commodities production costs to compete with low-cost competitors.

On the financial side, EDC has been providing crucial export support for forestry companies for decades. "The main reason these companies come to us," says Dany Gagné, Manager of the EDC Forestry Team, "is to obtain EDC's Accounts Receivable Insurance to make sure they get paid for their foreign orders. Having their receivables insured means that their bank credit is guaranteed by EDC, and that adds value to their transactions because it allows them to borrow more when they need additional cash flow. We insure between $12 billion and $14 billion worth of transactions for these companies every year, which makes forestry one of the largest sectors that EDC supports."

A DIVERSITY OF THREATS

The chief external threats to Canada's forestry industry are from low-cost suppliers of fibre and of the major wood commodities: pulp and paper, newsprint, wood products and lumber. With these products now being manufactured and exported by countries as diverse as Russia, Germany, China, Chile and Brazil, globalization is clearly a factor that affects the health of our forestry sector.

"What globalization has done," says Mill & Timber's Gray, "has been to flatten out everybody's market opportunities. We used to ship wood to places like South Africa and Australia, but now there are suppliers who are closer to those markets than we are, and who are displacing us because their resource or transportation costs – or both – are lower than ours. Softwood fibre is common, and once people learn how to make things from it, they're our competitors. That's going to continue, and it's one of the realities we all face."

"Globalization," adds Montgomery, "can be a one-way street, in the sense that customers like China can be willing to take our raw materials, but don't want to buy our value-added products. Instead, they start manufacturing these products themselves, and they eventually do this so cheaply and so well that it's difficult for us to get into the market."

Speaking of China, one major threat to our penetration of this market is Russia, whose immense eastern forests aren't far from the Chinese border. That means it's cheap to ship Russian lumber to market; moreover, while the Canadian forest industry invests substantial sums in sustainable forestry practices, the Russian forestry industry is almost completely unregulated and spends little or nothing in this area. These advantages, added to Russia's cheap labour, will make it difficult or impossible for us to compete in the Chinese market on price alone.

COMPETITION FROM ALL DIRECTIONS

Similar cost problems are cropping up all over the globe. While the Russian forestry industry is pretty much on its own in terms of government support, the same can't be said for the Scandinavian countries. In

THE SOFTWOOD LUMBER DISPUTE

Canada and the United States have been squabbling over softwood lumber for years. The latest round began in 2001, when an existing five-year agreement expired without a new agreement to replace it. American lumber producers promptly asked U.S. trade authorities for a review of Canadian softwood lumber imports, which they alleged were unfairly subsidized by governments in Canada because the wood came from public land.

The U.S. Commerce Department eventually decided that Canadian softwood lumber imports were indeed harming the American industry, and imposed tariffs of up to 27 per cent. Businesses in Ontario, Quebec and British Columbia have suffered severely from these tariffs and continue to do so. Producers who harvest trees from private land, as is the case in much of the Maritimes, have been less seriously affected because they only pay the countervailing-duties portion of the total penalty, but are still finding the situation very difficult.

Canada has repeatedly challenged the Commerce Department's decision in both NAFTA and WTO forums. The judgments to date have supported Canada's view that Canadian forest fibre is not subsidized, and that the United States should immediately drop the tariffs and reimburse the more than $5 billion that Canadian companies have already paid. As of this writing, the issue appears to be nearing resolution.

Photo: © REUTERS/Guang Niu

Chinese labourers at a furniture workshop in Beijing. The forestry sector is facing increasing pressure from low-cost suppliers.

Sweden in particular, the forestry industry has always had a close relationship with the government in terms of regulation and policy. Among other initiatives, Sweden has supported the wide-scale planting of new forests, and has helped its forestry industry develop innovative technology that is now being exported around the world. This collective, public-private strategy has been successful in keeping the Swedish forestry sector extremely competitive.

WHAT THREATENS OUR FORESTRY SECTOR?

- Intense competition from countries with large supplies of cheap wood and cheap labour.
- Markets that accept our commodities but refuse entry to our value-added products.
- Competitors with a high degree of cooperation between government and industry.
- Global oversupply of various wood commodities.
- New technology making it easier for foreign companies to match our products at lower cost.

Elsewhere, as Vincent observes, Germany has an overcapacity in sawmills and can obtain wood from the Baltic States at very low cost, which has given German companies an edge in the U.S. East Coast, one of our traditional markets. In the southern hemisphere, New Zealand's and South America's pine plantations are maturing, and the lumber is being cut and shipped to the United States. Even with the U.S. housing industry's enormous appetite for wood, the quantity available points to an oversupply that will keep prices low for a long time.

The squeezing of our markets is especially acute in pulp and paper manufacturing. Some firms are still profitable, but today our competitors are investing in plants that can be three times the size of Canadian ones, resulting in large economies of scale. Moreover, modern technology lets anyone make decent paper products out of lower-grade, cheaper fibre, and the overall result is that our competitors' cost of production is much lower than ours. We're also under threat at the resource supply end; in Brazil, a tree can grow to usable size in seven years; here, it takes 20.

ADAPTING TO ADVERSITY

But despite the problems we're living with at the moment, there's room for cautious optimism. Several broad strategies can help us adapt to the changing world market, just as we've adapted before.

"We have to keep investing in research and development to make sure we can introduce new products and take advantage of our strengths," says Vincent. "That's what we're doing in Quebec, but it takes time and investment to make the switch."

Farrell agrees. "A Canadian firm has to think hard about what it can do, not just today, but five to 10 years out. It has to be something that can't be turned into a commodity, manufactured in Shanghai, and arrive in the United States two weeks later. The companies that are doing well have thought that through, have relied heavily on efficiencies all along the value chain, and have found niches that can't easily be commodified."

At the same time, our producers will have to do all they can to bring costs down by, for example, eliminating production at the high end of the cost curve. Government encouragement and support in the areas of tax policy, industrial policy and regulation can also certainly help, as is so clear from the Scandinavian example. Obviously, too, we have to keep seeking out new alternatives to our traditional market, the United States. Softwood lumber, for example, is a widely traded commodity, so if market conditions are poor at a given time in the United States, they might be better in Europe or China,

The future, in other words, holds promise, because Canada's forestry industry makes fine products and will continue to do so. As Gray says, "It's been difficult, but we're still here. Just keep at it and we'll have a future. We'll always have trees." ■

Our Experts

For this article, we consulted six experts who have a broad range of experience with Canada's international trade in general and with the forestry sector in particular. They are:

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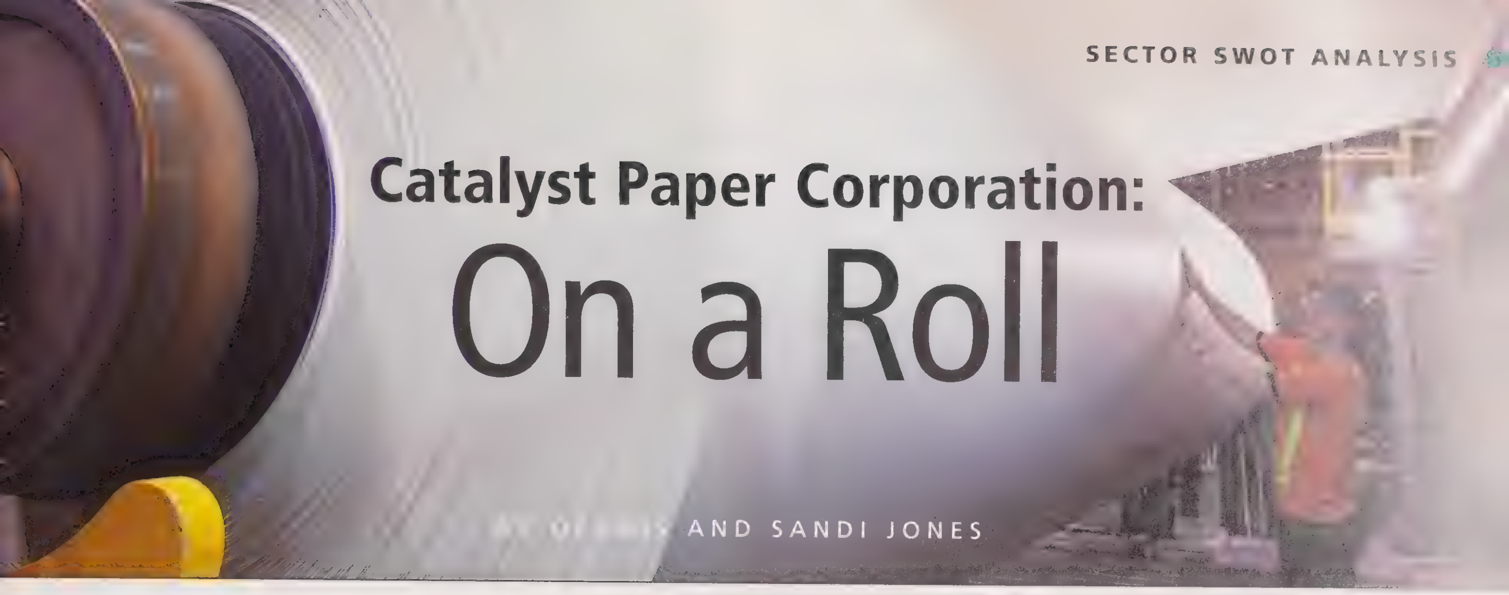

Catalyst Paper Corporation: On a Roll

BY DENNIS AND SANDI JONES

Despite the difficulties besetting the forestry industry, some Canadian companies are holding their own. Among these nimble and adaptable firms is Catalyst Paper Corporation, one of Canada's largest producers of quality paper and pulp products.

Based in Vancouver, Catalyst has four paper and pulp manufacturing divisions and one paper recycling division. The company is western North America's largest mechanical paper producer and the region's only producer of lightweight coated paper. It's also the third-largest newsprint and specialty mechanical paper company in North America, and the world's largest manufacturer of the paper used in telephone directories.

The evolution of Catalyst began in 1946 with the founding of British Columbia Forest Products Limited. In 2001, the firm became NorskeCanada, and in October 2005 it became Catalyst Paper, to reflect the company's ownership and management independence.

MATTERS OF DISTINCTION

Like most of Canada's forestry companies, Catalyst survives on exports. "About 90 per cent of our product goes to foreign markets," says Lyn Brown, Vice-President, Corporate Affairs and Social Responsibility. "We ship to customers in Asia, Latin America and Europe, as well as the United States, which accounts for 55 per cent of our exports."

And while Catalyst shares the industry's focus on exports, says Brown, it's a distinct firm in several ways. "All of our mills are on British Columbia's southwest coast, so we're a uniquely B.C. firm. We're also exclusively a pulp and paper manufacturer, which means we source all our natural fibre from third parties in the solid-wood sector. Our feedstock is waste – sawdust, chips, planer shavings, old newspapers and magazines – which we turn into some of the highest value-added products to come out of the forest sector. With a 71 per cent reduction in greenhouse gas emissions since 1990, we've also been recognized as one of the top 10 carbon reducers of the decade. In addition, we've partnered with the World Wildlife Fund to support responsible paper production, and we're part of the Coast Forest Conservation Initiative, which works with environmentalists and other stakeholders to protect sensitive coastal ecosystems and introduce sustainable forest management practices."

CHALLENGE AND CHANGE

As is the case with the forestry industry in general, recent years have presented Catalyst with major challenges. The sharpest of these is the increasing value of the Canadian dollar. "Our response," says Brown, "has been to adopt a performance culture that makes steady improvement, efficiency and cost savings, while maintaining service and product quality, as part of our mindset. We've achieved $300 million in performance improvements in the past three years; regrettably, the exchange rate has eroded these gains. So the big issue has really been the rapid rise of the Canadian dollar. That said, we also pay close attention to market dynamics and the capacity of competitors in emerging markets."

Catalyst is coping with a challenging business environment by adapting quickly to market conditions. The company has Western Canada's largest paper-recycling facility, and is among the world's few producers of sawdust-based pulp, which carries eco-logo certification and can substitute for traditional pulp produ[illegible] Catalyst is also leveraging its experti[illegible] lighter basis-weight production [illegible] requires less fibre to produce than stan-dard weight papers in all product lines from lightweight coated papers to new uncoated specialty and newsprint grad[illegible] that are favoured by commercial print[illegible] publishers and retail advertisers.

Given the current business environment, tracking export markets and the financial health of foreign buyers is indispensable for Catalyst. To keep tabs on conditions abroad, the company contacts EDC almost daily to obtain market intelligence and identify credit risks with its customers. Catalyst also insures most of its export business though EDC's Accounts Receivable Insurance, which guarantees the payment even if a buyer fails to honour a contract.

Ultimately, says Brown, Catalyst's resilience in the face of adversity is the result of following a handful of essential principles. "We take the time to know our market and understand foreign-exchange and political risks. We use every means possible to ensure that we have a solid pipeline to our customers. Finally, we always make certain that we have trusted, on-the-ground agents to look after our interests. And for us, it works." ■

Company:	Catalyst Paper Corporation
Business:	Producer of paper and pulp products
Location:	Vancouver, British Columbia
Employees:	3,800
Exports:	90% (approx.)
Markets:	Australasia, Latin America, Europe, United States
Contact:	www.catalystpaper.com or (604) 654-4000

Shifting Gears in Northern Mexico

BY DALE MORRIS

When asked what they fear for their country over the next 10 years, many Mexicans give the same reply: "that we will be where we are today – still treading water." With increasing pressure from China, Mexico now faces its moment of truth: become more competitive or languish. Canadian technology and expertise at work in Mexico's North could prove to be the country's ace in the hole.

Workers harnessing drill on PEMEX rig.

Northern Mexico's automotive sector has many opportunities for Canadian auto parts suppliers.

Twelve years ago when Canada, the United States and Mexico signed the North American Free Trade Agreement (NAFTA), the implications for the Latin American partner were considered significant: major, rapid economic growth was anticipated. Though Mexico's economy has not progressed at the expected pace and scale, the country has developed considerably and forged strong trade and business relationships with Canada and its companies.

"Northern Mexico, in particular, has emerged as a region of intense business activity, where demand for Canadian exports across a range of sectors is high," says Noé Elizondo, EDC Regional Manager for Mexico in Monterrey.

MEASURED GROWTH, STABLE ECONOMY

Mexico's economy has not lived up to the promise of NAFTA. Its potential growth rate has declined over the past few years – from 4.4 per cent in 2004 to 3.0 per cent in 2005. A rate of closer to 3.5 per cent is expected for 2006.

"Mexico's economic performance has been disappointing, held back by the government's inability to push ahead with much needed reforms. While the economy will continue to grow, it is unlikely to close the gap with developed economies unless progress towards these reforms accelerates," says EDC Economist Geoff Stone. "One area in which the Mexican government has made strides is in the promotion of monetary management and improvement of its external debt position. This has borne fruit in the form of improved risk perceptions and upgrades to the government's international credit ratings."

Mexican President Vicente Fox was elected in 2000. While the victory for the Partido Acción Nacional (PAN) party represented major progress for democracy in Mexico, because it was a minority win, reform has proven difficult to implement.

"Changes are required in the labour market to boost employment and productivity, and its reliance on oil revenues, given a low non-oil tax base, remains a concern," Stone says. "Competition from China is intense, and underinvestment in Mexican transportation infrastructure represents an opportunity cost preventing the country from fully realizing its comparative advantage for competing on a just-in-time delivery basis. For example, in kitchen appliance manufacturing, transportation infrastructure is key, because the products are large and bulky. Mexico is investing in infrastructure modernization, which will be critical moving forward and this is one area where Canadian expertise can be of huge value."

Mexico's ability to attract foreign direct investment (FDI) has also been restricted by the nationalization of the country's energy sector. Despite this, the environment for FDI is good, given Mexico's economic stability, still low costs and proximity to the U.S. market, says Stone.

Over the past year, Mexico's Central Bank has targeted monetary policy to bring down inflation. The government has actively pre-financed government obligations, which has added confidence – with bond spreads 140 basis points above U.S. Treasury levels for similar investments in the United States.

Inflation is decreasing across Latin America, the fiscal deficit is relatively small, and external debt has fallen dramatically. It is currently 21 per cent as a percentage of GDP, compared with 39 per cent prior to the Mexican Peso Crisis of 1994, which followed President Carlos Salinas' administration.

"The economy is investment-grade, the currency is stable, monetary reserves are at new historic levels, and there is no cloud of massive devaluation hanging over the upcoming election, as in the past," Stone says.

Mexico has been steadily losing its share of the U.S. import market to China over the past few years. According to the latest World Economic Forum competitiveness rankings, Mexico has fallen to 55th position from its previous ranking of 48th. China sits at 49th.

A federal election is scheduled for July 2, 2006. "This election will be historic: there's never been such a stable environment in the country," says Barbara Grinfeld, EDC Political Risk Analyst. "Tax reform, unemployment, competitiveness in manufacturing, and the modernization of Mexico's petroleum giant, PEMEX, are issues that require decisive action from the next administration. The opening of key sectors such as oil and electricity to foreign investment remains controversial and nationalist sentiment will likely prevail there. The main challenge for the next leader will be to forge a positive environment for negotiation and compromise between Congressional parties so that further economic, social and political progress can be made."

Photo: © Keith Dannemiller/Corbis

▲ A worker at the General Electric Medical Systems Maquiladora plant does a quality control check on a magnetic resonance machine.

NORTHERN MEXICO: INDUSTRY SECTORS

- Advanced manufacturing technology
- Agribusiness
- Agriculture
- Automotive
- Beverages
- Broadcasting
- Construction materials: cement, glass, ceramics
- Consumer goods
- Energy (gas)
- Household appliances
- Information technology
- Maquila manufacturing
- Mining (gold and silver)
- Packaging
- Plastics
- Steel
- Telecom

MAQUILADORAS AND MONTERREY

Canada has the opportunity to play an increasingly bigger role in Mexico's economic progress. Since the signing of NAFTA, Canada has established a strong trade relationship with Mexico, excellent diplomatic relations, and strong business connections. Canadian companies have invested roughly USD 5 billion.

Mexico is among EDC's top priority markets. The second-largest market in Latin America, it has become increasingly integrated with the North American economy, into U.S. manufacturing supply chains specifically.

Northern Mexico, in particular, is of keen interest to Canada and Canadian enterprises. The region comprises six states that border the United States: Baja California, Sonora, Chihuahua, Coahuila, Nuevo León, and Tamaulipas. A total of 63 Canadian companies have investments in the northeast alone, with more than 200 active exporters to the area.

Along the Mexico-U.S. border, a concentrated band of assembly plants exists, known as *maquiladoras*. The maquiladora industry began in 1965 and experienced slow but steady growth under Mexico's Border Industrialization Program. These factories worked under the Maquila Decree, which permitted import of materials and equipment on a duty-free basis provided all manufactured goods were then exported from Mexico. In 2004, 2,810 operating plants accounted for about 9 per cent of formal employment in Mexico, or 3 per cent of the total factor force. Maquiladoras may be 100 per cent foreign-owned. A full 90 per cent of them are located in the northern border zone, mainly in the states of Baja California and Chihuahua.

"There are a lot of unexposed opportunities there," says Robert Langlois, Consul General and Trade Commissioner at the Consulate General of Canada in Monterrey. "Most maquiladoras are foreign companies and 98 per cent of the goods and services they buy are from outside of Mexico, so there's huge potential for Canadian exporters."

Monterrey is the capital of Nuevo León, and the business centre of Mexico. Though home to just 4 per cent of the entire Mexican population, it generates some 8.1 per cent of the country's gross domestic product (GDP), according to the Nuevo León Department for Economic Development.

"Monterrey is a gateway – the key location where Canadian companies can begin their business development in Mexico," Langlois says. "Ten of Mexico's largest grupos, or conglomerates, are headquartered there. They produce more than 25 per cent of Mexico's total manufacturing output, and control more than 40 per cent."

Close to 3.5 million people live in the wealthy urban centre, which has a highly North Americanized business culture. "When a company walks into a new territory, there is always a certain amount of uncertainty and risk. In Monterrey, the style of doing business is very close to the North American style. There's transparency, punctuality is considered important, and the

Photo: Courtesy of Rocand Industries Inc.

Customer Experience:

An interview with Rocand Industries Inc.

Based in Quebec City, Rocand Industries designs and manufactures moulds for the plastics industry. Roughly 85 to 90 per cent of its business is export. Of that, 40 per cent goes to Mexico, and the rest to the United States.

ExportWise spoke with Rocand President André Rochette about his experience doing business in Northern Mexico.

decision-making process is coherent," says Jean-Charles Joly, Consul and Trade Commissioner with the Department of Foreign Affairs and International Trade. Canada and Mexico share other commonalities, Joly adds: similar time zones and the United States as a neighbouring market.

Monterrey is distinct from the rest of the country in the quality of its transportation systems as well: its infrastructure is modern and efficient.

It is also a centre of academic excellence, says EDC's Noé Elizondo, and many of the universities there have agreements with Canadian institutions, such as the University of British Columbia, McGill University, York University and the University of Waterloo, for student exchanges and internships. "This presents the opportunity to develop business with the newer generations," he says.

SECTORS OF OPPORTUNITY

"There are huge opportunities in Northern Mexico," says Denis L'Heureux, EDC Financial Services Manager. "There is a sizable market of consumers with an increased capacity for spending. And there are opportunities for Canadian companies to set up operations there – to take advantage of lower costs to remain competitive within Canada, and to better service the Mexican market."

"Strategically, Northern Mexico offers an entrance to Latin America and proximity to the U.S. border – access simplified and facilitated by NAFTA," Elizondo says. "It's a logical place from which to penetrate those markets."

ClientLogic agrees. A subsidiary of Canadian Onex Corporation, it has established call centre operations in Monterrey with 800-plus hires to serve the Spanish-speaking population in the United States. "They followed the opportunity. It makes sense," Elizondo says.

A number of industry sectors are active in the north. Manufacturing is dominant, as the automotive, construction materials and the maquiladora industries drive Mexican manufacturing exports. Other industries include agribusiness, beverages, information technology, mining, plastics and steel.

SMART BORDERS: THE SECURITY AND PROSPERITY PARTNERSHIP

The Security and Prosperity Partnership of North America (SPP) is a joint initiative aimed at enhancing the security of North America and promoting the economic well-being of Canadian, American and Mexican citizens

"The Partnership was created to harmonize and standardize the flow of goods and people across our borders," says Gilles Morin, Vice President of IT Business Services at EDC. "SPP projects such as C-TPAT (Customs Trade Partnership against Terrorism) will help us accelerate that flow – make it easier for goods moving between Canada, the United States and Mexico to qualify as duty-free and minimize the administrative burden of completing forms and having them verified. The United States and Canada have already made progress with liberalization of the rules of origin, but there is more to be done," says Morin.

SPP was announced in March 2005 by Mexican President Vicente Fox, U.S. President George Bush and then Canadian Prime Minister Paul Martin. By June 2005, several proposals, developed by trilateral working groups in consultation with stakeholders, were presented that focused on preventing and responding to external threats, securing movement of low-risk traffic across shared borders, enhancing economic collaboration and helping ensure the continued growth and competitiveness of North America.

The proposals included: measures to improve the screening of individuals and goods entering and leaving North America; real-time information sharing on high-risk individuals and cargo; joint assessments of cross-border infrastructure; and a commitment to devise a single, integrated global enrolment program for North American trusted travellers.

EDC has been working with Industry Canada in the area of e-commerce, building a common framework for safe electronic commerce. A needs assessment conducted in Fall 2005 identified several security challenges in need of solutions, including identity theft and phishing, which is the dissemination of phony emails attempting to access personal banking information.

Work is also being done to streamline consumer and business use of electronic commerce to conduct cross-border trade in the areas of commercial standards, transborder data flows and export processes linked to supply chain management technology.

Canada and the United States are currently working to establish common standards to recognize e-signatures and harmonize related legislation, says Morin.

Q: How long has Rocand been active in the region?

A: We've been exporting our product from our headquarters in Quebec City since 1998.

Q: What types of customers do you serve there?

A: Our clients include manufacturer(s) of automotive fuel-tank systems and provider(s) of small technical components for automotive electrical systems.

Q: How long have you been working with EDC in Northern Mexico?

A: For two years now. Rocand first accessed EDC's help to insure our receivables in order to increase our credit capacity. Now, we're in discussions about the possibility of establishing a footprint in Northern Mexico. We have to finalize our business case and prepare our financial approach to a Mexican or international bank in the region, and we may work through EDC to do that.

Q: How is the business experience different from here in Canada or in the United States?

A: Cultural differences are a factor. Our Mexican clients require more personal communication, more relationship-building. We take more time with these clients for discussion, and we submit weekly progress reports.

Q: Do you have any advice for companies considering exporting to the region?

A: Establish a strong network of people in the area who can share experience. We made good contacts through EDC, the federal and provincial governments, and at a trilateral trade forum called Franquemex that was held in November 2004 to bring together companies from Quebec, Mexico and France. We also exhibited at the Mexican plastics trade show *Expo Plasticos* in June 2005, which helped put us in direct contact with prospective customers.

Several sectors are highly promising for Canadian firms with the right technology and expertise, says Langlois. These include environmental industries; advanced technology for manufacturing, including moulds and machinery; aerospace; waste management; renewable energy, including biomass generation and solar energy production; and large infrastructure projects such as airport terminals, toll-road and subway projects.

"These are all areas of specialty without local competition," says Langlois. "Canadian companies have the opportunity to either invest to gain a share of the market or export their services to Mexico."

"Northern Mexico plays a key role in North America's supply chains and competitiveness," adds Elizondo.

ECONOMIC DRIVER: AUTOMOTIVE

The opportunities for Canadian parts suppliers to automotive companies are tremendous. In Hermosillo, Sonora, a large Ford operation has been established, and around it, a cluster of 50 suppliers to the plant, including well known Canadian companies such as Magna International and Martinrea. In Monterrey, a broader mix of parts companies and OEMs (car and truck manufacturers) are present. Other clusters exist in Saltillo, Coahuila, less than an hour's drive from Monterrey, and in Mexicali and Tijuana in Baja California Norte. San Antonio, Texas, a two-hour drive from the Mexican border, is the site of a new Toyota plant.

"It is quite a collection of parts companies in the Monterrey region – the Who's Who from the United States and Europe," says Dan Mancuso, manager of EDC's automotive team. "They've strategically located themselves close to their customers."

Many Canadian companies serving Northern Mexico's automotive sector initially set up in the maquiladora area, as an entry point into Mexico. "They tend to be small businesses looking to establish a footprint," says Julian Deschatelets, Financial Services Manager with EDC's Automotive Team. Many subsequently migrate south.

"These Mexican- and foreign-owned companies are not there necessarily for the inexpensive labour," Mancuso says. "There are labour and cost benefits, but they have established state-of-the-art manufacturing facilities. They buy a lot of automation and high-tech equipment – a growing proportion of it from Canadian companies."


Photo: GRUPO REFORMA/Juan Antonio Sosa

▲ Monterrey is a key location where Canadian companies can begin business development in Mexico.

EDC'S ROLE: FINANCING AND MATCHMAKING

EDC's Automotive Team provides financing support to both Canadian and foreign companies active in Northern Mexico. EDC offers foreign direct investment assistance to Canadian enterprises looking to set up operations in the region, and buyer financing support for Mexican and foreign multinationals seeking to expand or modernize operations there.

"Typically, most Mexican companies and foreign multinationals aren't looking for, say, $400,000 for Canadian equipment – they need $50 million to expand operations. We help them, and in the process do some matchmaking: we introduce them to Canadian companies that can supply them. So we lend to a multinational as a financial partner and in the process ensure they'll continue to buy from Canadian companies," Mancuso explains.

As part of this procurement strategy, Mancuso's team also invites Mexican buyers up to Canada to meet with Canadian tool-and-


Photo: Courtesy of Ternium Hylsa

Buyer Perspective:
An interview with Ternium Hylsa

Ternium Hylsa is a steel complex based in Mexico. Its activities cover a wide range of areas, from the extraction of iron from its own mines and the manufacture of steel to the production of finished products. *ExportWise* spoke with Ricardo Sada, Chief Financial Officer of Ternium Hylsa, about his experience working with Canadian companies and with EDC.

Q: In your opinion, what is the competitive advantage of Canadian companies in the market of Northern Mexico?

A: NAFTA and a relative proximity, plus EDC financing, are advantages.

die and automation experts, to explain their capabilities and facilitate the bidding, contracting and business development processes.

OPENING DOORS: EDC MARKET INTELLIGENCE

Beyond the automotive sector, EDC works to build broad relationships between Canadian companies and Mexican corporations, financial institutions, chambers of commerce and state governments. Acquiring and sharing market intelligence, and facilitating networking is a primary focus. "We help open doors," Elizondo says.

He cites one prime example: EDC has been helping Canada's Research in Motion (RIM) access the Mexican business community for export of its BlackBerry® devices. He also organizes virtual trade missions that allow Canadian companies to present their technologies to Mexican customers.

Elizondo and his financial services colleagues at EDC also support Canadian companies active in Northern Mexico with a variety of financing products.

Financing – foreign direct investment. Canadian companies sometimes find it difficult to access local financing in Mexico without a business track record there. EDC supports these customers with direct lending. EDC lends the capital to finance a project or to acquire a Mexican company, for example.

Buyer financing. EDC lends to foreign companies, governments and agencies procuring goods and services from Canadian suppliers. If the foreign buyer does not meet all criteria for direct financing, EDC may be able to lend to them through a local bank. Loans are available in Canadian or U.S. dollars, and can also be provided in a variety of other hard currencies.

Bonding products. Contract bonds are often required by foreign buyers as financial security to ensure the seller will honor its contractual obligations. Bonds can be issued by banks in the form of standby irrevocable letters of credit or letters of guarantee, or by surety companies in the form of contract surety bonds.

Getting a bank or a surety company to post a bond can be difficult, especially if the seller does not have access to the necessary security or does not meet other underwriting criteria of the bank or surety company. EDC's Contract Bonding Services can help the seller get the bond it needs to make its export deals happen. Buyers may demand bonds for a number of reasons.

Photo: Martin Lipman

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Performance bonds. Performance bonds can be required as part of a seller's response to a call for tender. This covers the buyer's costs if the seller is awarded the contract but doesn't accept or can't provide the necessary contract bonds. Performance bonds can also protect the buyer if the seller doesn't perform according to the contract.

Labour and material payment bonds. Labour and material payment bonds ensure subcontractors, suppliers and material suppliers will be paid so that liens are not placed against a project. This guarantees the owner/buyer that a third party will pay subcontractors and suppliers if the seller can't or won't. Only surety companies issue these types of bonds. Advance payment/progress payment bonds are issued against any money the seller receives from the buyer before delivery. They will ensure that the buyer recoups losses if the work is not performed. Typically these take the form of letters of guarantee, but surety bonds can also be used.

Warranty and maintenance bonds. Warranty or maintenance bonds ensure the seller lives up to all warranty obligations, honours all warranty claims for defective workmanship and materials and, in some cases, provides compensation if the goods or services do not perform as represented. Typically, these take the form of surety bonds, but letters of guarantee may also be used. ■

Q: Where is your company, Ternium Hylsa (formerly Hylsamex), based and what is the nature of your business?

A: Ternium Hylsa, as it's now known, is based in Mexico. Ternium Hylsa is a fully integrated steel maker, from iron ore mines to value-added finished steel products.

Q: What is your experience buying goods and services from Canadian companies?

A: We have acquired capital goods (machinery and heavy equipment) from Canadian suppliers such as SMS Demag Ltd (formerly PRO/ECO). These companies had to bid for various projects competing against manufacturers from the United States, Germany, Italy and the United Kingdom. Our experience with Canadian suppliers has been very good in terms of pricing, quality and delivery.

Q: How has EDC been involved in these dealings? What forms of support or expertise have they offered?

A: EDC participated in the financing of our 1996–1997 expansion projects with USD 8 million over five years. Later on, EDC entered into two bank syndications in the amounts of USD 8.6 million (2002) and USD 9.4 million (2004), indirectly financing an assortment of Canadian imports.

Q: Do you have any advice for Canadian exporters or investors seeking to establish relationships with Mexican buyers? Is there anything particular to the Northern Mexican region that they should be aware of?

A: Canadian exporters should actively identify and visit potential customers, with support from EDC.

Russia's Forestry Sector: Growing Opportunities

Photo: © Jeremy Nicholl/Alamy

BY JANE DALY

Next time you're wondering where to find buyers for your company's products, consider this: somewhere, someone is wondering where to find what your company is selling. The trick is getting together, and EDC is working to make that a whole lot easier.

This past February, EDC teamed up with other government agencies to play "matchmaker" between 10 Canadian forestry sector companies and several major Russian forest product companies who are in the market to secure everything from investment capital and consulting expertise to technology and machinery.

"EDC is well-known for its financial and insurance services," says Rod Lever, EDC Regional Manager for Russia and the Commonwealth of Independent States (CIS). "But as the name Export Development Canada suggests, our mandate is also to help develop export opportunities, especially in emerging markets such as Russia. The Canadian forestry products sector is very strong in terms of technology, and we wanted to build awareness among Russian market leaders of Canadian capabilities."

EDC recognized opportunities for Canadian companies in the Russian forestry market in 2005, after financing a $16 million deal between Canadian companies Groupe Laperrière & Verreault Inc. (GL&V) and Sandwell Inc. and the Russian pulp and paper manufacturer North-West Timber Company, structured in partnership with Gazprombank. This deal, led by EDC Financial Services Manager Stephen Hebert, established a relationship with North-West Timber and is publicly cited by the company as the kind of financial solution they would like to pursue in the future.

"Some 25 per cent of the world's forest resources are in Russia, yet most of their facilities and equipment need to be modernized," says Lever. "We have strong relationships with Canadian forestry sector suppliers and we wanted to develop relationships with Russian forestry companies."

This idea of building relationships is especially important, since competition is stiff in the Russian forestry market. Canada is also farther away from the Russian forest products equipment market than some of its competitors, which include Finland and Germany, and this adds in shipping, travel and transportation costs. Canada is also a latecomer to the market.

THE CANADIAN ADVANTAGE

"But our country does have advantages in that Russia and Canada have similar landscapes. Our equipment is made for similar forest conditions, so Canadians have expertise in this area," Lever says. "Canadians also have the experience and expertise to modernize the same types of plants. Sandwell is a prime example. All kinds of technologies, products and services are needed for everything from the refurbishment of mills, construction of forest roads, automotive timber transporting, and more. There's such a wide variety that the Russians want to buy, and if we could get even five to 10 per cent of that market, we'd be looking at substantive incremental trade volumes."

Since the market holds promise, it was decided that a matchmaking event was in order. Exfor, a high-profile industry trade show held during Paper Week International 2006 in Montreal, seemed like the perfect venue, where some 7,538 participants from 24 countries gathered for an annual conference put on by the Pulp and Paper Technical Association of Canada (PAPTAC). Russian companies attending the event included North-West Timber Company, SFT Management Group, Solikamskbumprom, Perm Pulp and Paper and Segezha Pulp and Paper. "We decided to build the matchmaking event around the show and even house it in the same building," says Lever. "This would provide the Canadians with an effective way to meet several potential customers at an event they were probably going to be attending anyway. And it cost them nothing."

Meanwhile, the Department of Foreign Affairs and International Trade's (DFAIT) Gilles Couturier, Europe Commercial Relations Division, was researching the market and approaching Russian companies and associations and arranging for them to meet the Canadian suppliers. "This was the first time such a large Russian pulp and paper mission had been organized," says Couturier. "EDC and DFAIT work together all the time, and it was important for us to team up along with Canada Eurasia Russia Business Association (CERBA) and other government agencies to ensure the event was useful for both sides. We needed to have a strong and thorough program to make a lasting impression. At the same time, we wanted the Russian attendees to be very high level – general directors and owners – to ensure that they were the decision-makers for their companies."

In addition to mobilizing the Russian delegation to Canada, the DFAIT team worked with CERBA to secure guest speakers and subject experts to conduct seminars on issues that could affect the Canadian companies when dealing with Russia, such as sustainability and timber certification. Before meeting the Canadians, the Russian companies also made presentations about their industry and their requirements.

To make the meetings as efficient as possible, EDC first reviewed its database of customers to compile a list of suitable forestry sector companies that could supply the Russians with what they needed. Invitations were then sent out to the prospective suppliers with the descriptions of the Russian forest product companies, and the Canadians pre-registered which Russian companies they wanted to meet. The Russians had already indicated to EDC what kind of potential suppliers or investors they were interested in meeting.

And the results were a definite success. "On the morning of the matchmaking session, each Russian company had seven or eight 20-minute meetings, and overview presentations by our Russian guests, discussions about their capital investment plans, and how the capabilities of Canadian companies could fit the needs of the Russian companies," says Lever. "It's one thing to have a delegation come to Canada, but it's another to provide facilitation for serious discussions. It's much more proactive and productive."

EDC was, of course, on hand to discuss any financial or insurance needs the parties might have. "There are two main products EDC supplies that these companies might need – one is financing and the other is insurance," Lever says.

He adds that vendor financing schemes can be structured either directly with foreign buyers, or indirectly with a Russian bank as the intermediary. "Not all Russian companies have financial reporting standards that EDC would readily accept for its direct lending program," says Lever. "A Russian bank will have the knowledge and expertise required to know whether a Russian company is credit-worthy. By putting in place a funding arrangement in partnership with the Russian bank, the Canadian vendor can then offer an approved EDC financing solution, which improves the competitiveness of their products and services."

Accounts Receivable Insurance allows the exporter to provide flexible payment options to the buyer, which buyers frequently demand. "EDC can attach various tenors to insure the receivables of a Russian entity for a period of time," says Lever. A Canadian bank, seeing receivables from a foreign company in Russia, might consider it too risky to extend working capital to the Canadian company. But with EDC on the hook for buyer non-payment risk, they're usually more willing."

The event was so successful that Lever would like to see similar matchmaking events for other industry sectors in the future. "We're helping to develop trade in targeted sectors, not just provide financial services," he says. "By showcasing our technology and arranging meetings like this, we're laying the groundwork to build long-term, beneficial relationships." ■

THE CANADIAN COMPANIES

1. Babcock & Wilcox
2. Canadian Paper Connection
3. Cordiant Capital
4. Gerrard Ovalstrapping
5. Invensys
6. KSH Solutions
7. Paprican
8. Rockwell Automation
9. Sandwell Inc.
10. Tigercat
11. GL&V

THE RUSSIAN COMPANIES

1. North-West Timber Company

North-West Timber Company (NWTC) is a vertically-integrated group of industrial enterprises including the Neman Pulp and Paper Mill, the Kamennogorsk Offset Paper Mill, and the Velsk Glued Timber Structures Mill. NWTC is based in St-Petersburg and its activities run the full production cycle, from logging and manufacture of cellulose and paper, to specialized paper products. With more than 2,000 employees, they have experienced a 72 per cent growth in sales volumes over the past three years. Over the next five years, the company wants to invest $50 million in the Kamennogorsk Mill, as well as $400 million for the reconstruction of the Neman Pulp and Paper Mill. They are also looking to reconstruct paper-making machines and a cooking chemicals regeneration system in a $50 million project.

2. SFT Management Group

SFT Management is majority shareholder of several enterprises, consolidated under one group. These include the Pitkyaranta Pulp Mill in the Republic of Karelia, the Kamenskaya Paper Board Mill in the Tver region, and the Aleksin Board Mill, in the west of Russia. With almost 1,200 employees at the Pitkyaranta Pulp Mill, the plant specializes in unbleached sulfate manufacturing and produced 88,000 tons of cellulose in 2004. It is looking to invest in increasing output of the plant.

3. Solikamskbumprom

Solikamskbumprom is based in Solikamsk in the Perm Oblast (region) of Russia and focuses on logging and paper production, including 500,000 tons of newsprint annually, wrapping paper, and packaging for the domestic market. Established in 1941, it employs nearly 4,000 workers. The company is looking to improve its newsprint quality and reduce its energy consumption through continuous equipment expansion and upgrades.

Regional Representatives

In each edition, *ExportWise* touches base with two of EDC's representatives responsible for strategically important markets to learn firsthand about the opportunities they see.

Photo: Martin Lipman

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Rob Simmons received exposure to Asia in the early 1990s when he was Alberta's Trade Representative based in Hong Kong. Since then he has been assisting Canadians in doing business in Asia, following developments as the region matured and trade ties with Canada deepened. In his new role as EDC's Chief Representative to Southeast Asia based in Kuala Lumpur, Malaysia, he is responsible for developing business in countries as diverse as Malaysia, Thailand, Indonesia, Singapore, the Philippines and Vietnam. Rob recognizes that each market carries unique risks and opportunities requiring imaginative strategies.

How would you describe the Southeast Asian market to Canadian exporters and investors?

This market is rich and diverse, with tremendous forward-looking energy, combined with a respect for tradition and custom. It's a complex task to devise strategies that can address Singapore's highly developed economy as well as Vietnam's emerging market and nascent industries. The ability to switch gears is integral to doing business in a region where transactions range from commercial, transparent agreements between world class private-sector entities to those subject to intense political involvement and bureaucracy.

What industry sectors show the most promise for Canadian companies in your region?

China is creating surging demand for various inputs from all over Asia. Southeast Asia is no exception. At the same time, the region is also growing as a principal link in global supply chains extending beyond China. There is a sense of urgency within countries like Indonesia, Vietnam and Thailand to fast-track infrastructure development that can seamlessly match demand and supply. Capturing the opportunity means targeting niches where Canadian expertise can add value in sectors such as mining, transportation, information and communication technology, environmental service, biotechnology and aerospace.

In your experience, what are the greatest challenges Canadian companies will face when doing business in your region?

Canadian exporters and investors have to be consistent and provide the level of after-sales service demanded. With Canada being so far away it is tough, especially for smaller enterprises, to maintain a presence in the market to address buyer concerns and build relationships. Asian sensibility recognizes and respects perseverance and commitment, so distinguishing oneself with the ability to meet these expectations eventually gets rewarded.

What are the risks in this region?

Any market carries risk. Corruption, bribery or threat of intellectual property infringement is of greater concern in some countries than in others. Governance issues are a high priority for countries that want to be recognized as reliable investment destinations. Knowing the market and accessing current, trustworthy advice is critical in helping counter concerns and minimize waste and delays.

What excites you most about the challenges and opportunities you see in the region?

Southeast Asian markets are among the most open economies in the world, attracting foreign direct investment at a rate comparable to, or even greater than, China. Manufacturers are retooling and expanding facilities all the time to extend capacity and develop new expertise. It's all aimed at achieving economies of scale and streamlining distribution channels to fuel even greater economic activity.

Can you highlight some specific projects or infrastructure developments that would find Canadian expertise attractive?

Every country has a development agenda. Thailand, for example, has recently announced an ambitious strategy of economic development called the Modernization of Thailand. This large government-led effort is focused on overcoming gaps in three specific areas: New Wave Industry (principally bio-science), Upgrading Industry and Green Industry (*see related profile on Thailand*). Initiatives like these are happening to various degrees all over the region, offering opportunities for Canadians to enter new markets and develop long lasting and mutually beneficial business relationships.

Photo: Minoru Iwasaki/CP Images

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Winston Kan brings a rich background of private and public sector experience to his position as EDC's Chief Representative to China based in Beijing. Born in Hong Kong, Winston received his university education in Canada and spent a major part of his career with a number of Canadian companies, including the Royal Canadian Mint, as well as foreign companies, working on developing Asian sales strategies.

What did you learn about the China market from your work experience in Hong Kong and as sales manager for international companies?

Being able to communicate in Chinese and significantly improve my Mandarin, I learned that the Chinese market requires strategies that appreciate the culture and customs of the Chinese people as well as sound business principles. The Chinese look for incentives in a sale that respect their pride and stature, both personally and as a nation. Business relationships should be nurtured in ways that enhance a Chinese partner's standing amongst its peers. It's very important for investors and exporters to learn how to express such value and respect without resorting to bribery.

How have things changed over the last 15 years or so in terms of Chinese development?

When I first began working on Asian sales strategies, China was only a part of the equation. Now it's the dominant factor influencing the economic strategy of virtually every other country in the region, if not the world. Even companies not trading with China need to factor the market's influence into their business planning.

How do you approach the task of coordinating your efforts with the work of Canada's trade commissioners?

Many of our competitors have extensive support structures to back their trading efforts, so it is imperative that we leverage all of our strengths. We have to work closely together as a team and support each other's initiatives, including the exchange of information, tips and advice on getting the deal done.

What are the challenges facing Canadian exporters and investors in China?

Exporters and investors have to keep in close contact with the Chinese market and be prepared to be flexible and react quickly to change. They also have to recognize that one-shot transactions are not favoured by Chinese companies, who prefer an escalating business arrangement that can be progressively more profitable. Chinese businesses are frequently organized as conglomerates and the linkages between business activities may mean deals can be tiered and organized across several industries.

What are some market risks in China?

Top of mind for many Canadian businesses are concerns about corruption, bribery and uncertain intellectual property protection. While there have been significant steps taken by the Chinese government to address these issues, much still has to be done to bring China in line with international standards.

What are two examples of priority sectors in China for Canadian business?

Chinese spending on research and development in bio-science is rapidly increasing as they look to expand domestic expertise, build their own brands and move up the value chain.

At the same time, infrastructure is still receiving massive investment. That means a high demand for surface transportation such as railway and subway cars as well as the services to design and manage intelligent transportation and distribution networks.

Do you have a central message for Canadian business seeking entry to the Chinese market?

The ability to successfully enter China depends on distinguishing oneself in a crowded market place. Branding your product by becoming known for quality and uniqueness gives you an edge over competitors. This becomes even more critical when the pressure on pricing is so constant. Equally important is one's commitment and respect towards business relationships in China. Due diligence on potential partners should be a prerequisite to avoid one-time disappointments that could deter future opportunities. Success can be achieved when both partners perceive trust and mutual benefit over the long term. ■

Focus on the United States, Part II

Canada's Consulate General in Boston: Innovation Destination

Testing for West Nile Virus in a Massachusetts laboratory.

Photo: © Wyman/Corbis Sygma

BY DENNIS AND SANDI JONES

New England is one of our major trading partners and is more important to Canadian exporters than many larger jurisdictions, including whole countries. Although Maine, Massachusetts, New Hampshire, Rhode Island and Vermont have a combined population of only 10 million, Canada shipped $24.7 billion worth of goods to the region in 2005. Contrast that to our exports to Japan ($9.1 billion to a population 12 times larger) and you'll see why the region is rich in opportunities for Canadian exporters.

Moreover, its importance as a trade destination should increase. While the bulk of New England's imports from Canada have traditionally been resource-based commodities such as energy, lumber and wood products, the needs of the region's economy are rapidly becoming more diverse, especially in high-technology sectors. This should open up opportunities for Canadian innovators in information and communications technology, pharmaceuticals, medical research and defence technology.

No one is more aware of this growth and diversification than Michel Têtu, Deputy Consul General and Senior Trade Commissioner at Canada's Consulate General in Boston, whose trade and investment team helps Canadian businesses explore the opportunities of these New England states. In his view, there are several up-and-coming market sectors that will reward attention for Canadian companies.

"New England," says Têtu, "is strong in information technology, including computers and telecommunications. The region also supports a vigorous financial sector, especially in mutual funds and venture capital. There are also areas of higher education and healthcare, which support several subsectors of research, development and innovation. Our current exports, which emphasize commodities, are not an exact match for the needs of the local economy. But the Consulate trade team is working to shift the trade relationship between Canada and New England toward the high-tech sector."

PEOPLE POWER

The Consulate team's commitment to diversifying Canada's trade with New England keeps everyone busy. The region's bustling economy and its openness to Canadian products and services, make it a popular point of entry to the United States. As such, the team handles up to 400 inquiries annually from Canadian firms investigating the market. They also host about 150 companies who come to Boston as members of business and government delegations.

Given this traffic, keeping tabs on the regional business environment is crucial. "We use three methods to stay up-to-date," says Têtu. "People, people and again, people. Keeping in touch is the only way to work. That means attending trade fairs and conferences, hosting meetings and seminars, doing whatever we can to expand our networks and establish new contacts."

TRANSFERRING TECHNOLOGY

New England may be small in population, but the strength of its high-technology sector reflects the region's great appetite for innovation. Institutions and businesses are interested in anything that will keep the local economy competitive. If they think a Canadian product or service will help achieve this, they're prepared to finance, develop or purchase it.

The most important areas of opportunity include education, research and healthcare. "Canadians don't realize how big an asset universities, research institutions and hospitals can be for economic development," says Têtu. "But we're working to change this. Last August we hosted a delegation of 28 Canadian technology-transfer officers so they could see how the United States moves technology and innovation out of their research centres into the market. The Americans have brought this system to an impressive level of sophistication, especially at MIT and Harvard, and our objective is to help Canadian businesses and educational and research institutions take advantage of these opportunities.

INNOVATORS WANTED

Some of the richest areas of opportunity lie in the biotechnology and medical-technology sectors, which are innovation-driven and enormous. The combined research budgets of the five largest hospitals in Boston, for example, total $1.1 billion. By contrast, the 13-member Canadian Institutes for Health Research has a total budget of about $700 million for Canada.

As a result, says Têtu, "New England pharmaceutical firms are keen to talk to companies that are working on new products or drugs, regardless of the development stage. It's a way to reduce the risks of research. Once a product reaches a promising stage, they're willing to consider buying it and putting it into their development pipeline. So the doors are open."

Canadian firms that specialize in monitoring, navigation and communication technologies may also find markets in the defence and security sector. Boston-based Raytheon, for instance, is one of the largest U.S. defence contractors. Têtu also wants to expand Canada's presence in the photonics and nanotechnology sectors, and, given Boston's location on the Atlantic Coast, he sees possibilities in ocean technologies as well.

The total value of all Canadian exports to the United States in 2005 was $365.8 billion. That year, EDC supported approximately $30.6 billion in exports through its various programs, or approximately 8.8 per cent of all of Canada's exports to the United States. About 8 per cent of this business was facilitated by EDC's Short-Term Insurance programs. In Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, these programs approved nearly $600 million in buyer credit limits to almost 3,700 buyers.

HOW MAY WE SERVE YOU?

Services can be just as much in demand as new products. Canadian clinical research organizations (CROs), for instance, are well positioned to conduct clinical trials for American pharmaceutical companies through a network of Canadian hospitals and healthcare centres. "Last year we introduced a number of CROs to interested American firms," says Têtu, "and we recently heard that one of those companies has signed a contract with an American drug manufacturer to do clinical research in Canada."

Another market for Canadian service exporters is the higher-education sector. Many American students are studying in Canadian universities, and the Boston Consulate has held several seminars to further open up this market.

TO GO OR NOT TO GO

But do the difficulties in entering the market outweigh the opportunities it presents? Not if you know what the market's priorities are, says Têtu. "Price does matter to some extent, but the key to being competitive in this market is innovation. If your product really is different and better, you can charge more for it. Innovation comes at a cost."

As with all business ventures, thorough preparation is essential. Fortunately, there are many sources of assistance that can help both experienced and novice exporters prepare for the New England market. "One thing to do," Têtu advises, "is inquire about provincial delegations coming to New England. The Atlantic provinces are especially active – they're constantly bringing missions here. There are also various regional development agencies, and regional offices of the Department of Foreign Affairs and International Trade. Quebec has its own trade office in Boston."

Têtu emphasizes that EDC has a strong role to play in supporting exporters to the region. "Most companies that focus on innovation can't survive if they restrict their business to Canada. Their market is the world, and they need to conquer that market as fast as possible. To do that, they need strong assistance in financing their contracts and exports, and that's where EDC can help."

And while Boston isn't a major banking centre, it does have a robust venture-capital community that Canadian companies can tap into. Boston's venture capitalists are primarily interested in technology, and are less interested in a long-term commitment than in a company's ability to make a breakthrough in the market.

A WEALTH OF POSSIBILITIES

Têtu's message for Canadian businesses is simple: New England is a great destination for innovative companies. Innovation is what keeps the economy going, and it's why the region is wealthier than other parts of the United States. "Measure it any way you like," he says, "you'll always come back to the fact that this is an economy that creates, sells and purchases innovation. If your company can be part of that, New England is the place for you."

WHO TO CONTACT

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www.boston.gc.ca

For information about provincial export development agencies, refer to the "Regional Export Information" section of the Team Canada Inc website at **www.exportsource.ca**.

To find the Regional Office of the Canadian Trade Commissioner Service nearest you, refer to **www.infoexport.gc.ca/regions**.

The Modernization of Thailand

BY PETER BRAKE

Photo: © Cris Haigh/Alamy

Famous for its tropical beaches and its teeming capital Bangkok, Thailand attracts throngs of visitors every year, eager to experience both the breathtakingly exotic and the serenely ancient. Despite the appeal of its natural beauty and history, today's globalization pressures are forcing Thailand to examine its role in the region and forge its own path of development.

THE GATEWAY TO SOUTHEAST ASIA

"Thailand's strategic location at the heart of Southeast Asia makes it a natural hub for the surrounding region," says Marvin Hough, EDC Regional Vice-President for Asia. "Thailand is a gateway to emerging markets like Cambodia, Laos and Vietnam, and to more industrially-advanced neighbours like Malaysia and Singapore. Its ability to offer a cost effective platform for production makes it a good regional candidate for foreign investment." Its proximity to China has meant it has generally benefited from the booming Chinese demand for raw materials and inputs, giving Thailand's economy steady annual growth between 6 and 7 per cent over the past three years.

Rapid growth in Asia, however, has also exposed the urgent need for investment in the expansion and upgrading of infrastructure to fit within the global supply chain and meet the demand for natural resources. With the example of rapidly industrializing economies on its own doorsteps, Thailand has determined that its long-term economic stability requires a concentrated national program of economic diversification and modernization.

MODERNIZING THAILAND

"Modernization of Thailand" is the government program launched in early 2006 to implement Thailand's goal to transform itself into a modern, competitive knowledge-based economy. The Thai government notes that Thailand lags behind much of the world and competitors in international rankings for measures of science, health, and environment and education infrastructure, a ranking that can only be overcome by a national commitment to modernize.

Rob Simmons, EDC Chief Representative to Southeast Asia, observes, "It is with a sense of urgency that a country like Thailand is trying to fast-track infrastructure development including ports, airports, railways, power generation, water and telecommunications. Southeast Asia's current economic strength is based on integrative trade within Asia, where China and India are creating surging demand for materials and inputs of all kinds. In the process, Thailand has an opportunity to become an integral part of the greater global supply chain story."

Modernization plans call for a focus on sectors such as logistics (mass transit), water resource management, natural resources and environmental management, information and communication technology as well as defence and health. Certain industrial sectors have been prioritized under the designated groupings of:

MARKET SNAPSHOT

Population (2004): 64 million

GDP (2003): $163 billion

Merchandise imports from Canada (2004): $411.4 million

Main imports: Capital Goods (45%); Petroleum (12%)

EDC business volume (2005): $102.4 million

New Wave Industry, Upgrading Industry and Green Industry. Sub-sectors include: agritronics, automotive parts, autotronics, bio-products, eco-products, electronics, food, recycling, rubber products, and waste treatment & recovery.

Key to the program is an innovative international bidding process that calls on interested parties to submit proposals consisting of new development ideas, the identification of appropriate technology and management and alternative sources of financing. Specific projects will be determined upon consideration of the proposals.

MEGA-PROJECTS, MEGA-PROSPECTS

In tandem with their Modernization program, the Thai government has initiated a Mega-Project investment package providing funding of more than USD 42 billion for infrastructure projects. The four-year program allocates USD 37 billion to improving mass transit, transport, energy, telecom, water resources and housing together with a further USD 5.5 billion for education and health. Opportunities should emerge for Canadian engineering services, logistical systems, equipment and parts, as well as technology and expertise in environmentalism and health care.

The mass transit system in Bangkok, currently inadequate to serve a population of more than 10 million commuters, will be expanded from 43 km to 277 km with the addition of rolling stock to handle increased capacity. The budget for this is estimated at USD13.8 billion.

Increased demand for natural resources has demonstrated that Thailand's existing transport network requires considerable expansion and upgrading. At least USD 1.15 billion will be devoted to improving the Bang Yai, Saraburi and Bang Pa motorways. An additional USD 950 million is aimed at expressways servicing Bangkok as well as enabling direct connections between other regions. The railway system has also been targeted with funding of USD 614 million to rehabilitate and extend tracks to improve safety and ease congestion.

Power generation has also been an area of concern as economic growth and increased foreign investment could exceed current generating capacity within a few years. An investment package of USD 1.7 billion has been developed with the aim of building three new power plants and expanding two transmission systems.

The Thai government is keenly aware that telecommunications is a means to knowledge and business opportunity and the digital divide between urban and rural areas has generated considerable resentment in the countryside. To that end, USD 611 million has been allocated to expand connectivity and upgrade switching and broadband services.

In addition, given Thailand's vulnerability to weather and climate changes, the Thai government plans to implement water resource projects for better flood control and ensure sufficient water resources. As the recovery from the tsunami continues and tourism rebounds to previous levels, new investment of USD 4.9 billion is planned for a system of check-dam construction, rehabilitated watersheds and waste water management.

Finally, the dual threats of AIDS and avian influenza have made improved health services, education and housing a priority, with the promise of new Thai investment of USD 5.5 billion.

POLITICAL AND MARKET RISKS

While the constitutional monarchy in Thailand is a stabilizing and moderating force in the country, the political situation merits close watching, according to Andrew Bennett, EDC Political Risk Analyst. "Thailand is one of the least risky of the Southeast Asian economies, and one of the most developed. King Bhumibol Adulyadej is the world's longest reigning monarch. Revered by his subjects for his kindness and devotion to Thai welfare, he is the strongest check on the drift of Prime Minister Thaksin Shinawatra's government."

First elected in 2001, Thaksin was re-elected with an overwhelming majority in 2005, freeing him from the constraints imposed by coalition partners. Although he had run on a reform platform, Thaksin's position has been weakened considerably by accusations of corruption and cronyism and an unwillingness to confront vested interests. Bennett notes that the pressure to resort to a military solution to the Muslim insurgency in Thailand's southern region may have a further negative impact on Thaksin's political future.

"Nonetheless," says Bennett, "Thailand is still a comparatively low political and market risk from the standpoint of investment and trade. It is interested in advancing its role in the Association of Southeast Asian Nations (ASEAN) and modernizing its economy by attracting foreign investment, both of which hinge on its willingness to conform to international standards and engage in real reforms."

A KINGDOM OF OPPORTUNITY

A traditional kingdom in a rapidly changing world, Thailand recognizes that it cannot stand still. With its strategic location and access to the economic powerhouses of China and India, it feels a keen sense that the time is ripe to embark on an agenda of rapid development. As it happens, Canadian export strengths complement Thai modernization requirements, an indication that an important trade relationship could grow stronger. ■

ECONOMIC INDICATORS 2005

GDP (% growth, real):	5.8
Inflation (%, year-end):	3.0
Fiscal Balance (% of GDP):	1.2
Exports (% growth):	10.0
Imports (% growth):	15.0
Current Account (% of GDP):	2.0
Reserves (month of imports):	4.5
External Debt (% of GDP):	25.0
Debt Service Ratio:	5.7
Currency (per USD, year-end):	38.0

For More Information

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Canadian Trade Commissioners:
www.infoexport.gc.ca:
Select "Our Offices Abroad" followed by "Asia-Pacific" then select "Thailand" from the list.

Thailand Government
www.thaigov.go.th
www.modernizethailand.com

Stephen Poloz, Senior Vice-President, Corporate Affairs and Chief Economist

The Dynamics of Globalization

Globalization incites fear in some, awe in others. Either way, the forces of competition will not go away and companies will need to demonstrate flexibility to prosper through time.

BY STEPHEN S. POLOZ

We can see evidence of globalization every day – more and more products produced in multiple countries, jobs being outsourced, DVD players for $39, and so on. The world is going global, but how will we know when we get there?

The essence of globalization is that companies are breaking their products or services into components and sourcing those components in various countries, using trade to bring them together. This production model permits a very high degree of specialization in each part of the supply chain, and the resultant increase in productivity drives consumer prices lower, benefiting everyone.

Each decision by a company to source a specific component in a particular country requires an analysis of local costs, labour skills, and technology. For example, a component manufactured by injecting molten metal into a mold can be produced using a sophisticated casting machine monitored by one engineer; or it can be made with a more rudimentary machine and numerous workers, including quality inspectors. The first process may suit a high-wage country, the second a low-wage country, but the two might still produce different cost/quality combinations that matter to the customer. Companies must take all these things into consideration when developing a global supply chain.

Globalization raises the fear that Canada will steadily lose jobs to foreign competitors, starting with low-productivity/high-wage jobs and later extending to higher-productivity jobs. But the process is not that simple.

First, the competitiveness gap between the domestic company and the offshore location depends on the technology that is being used. Manufacturing a sophisticated part to a customer's specifications may require the use of a high-technology process with few workers. In this case, manufacturing the part will cost about the same whether the plant is located in China or in Canada, because the machine costs the same regardless and there is minimal labour involved. Accordingly, there may be little or no incentive to move the process offshore. Indeed, transportation costs and speed of delivery may become the determining factors that keep the process onshore.

Second, the offshore cost advantage will evolve into a sales opportunity with time. As jobs are created in low-cost countries, wages and living standards increase there and those countries move up the income and technology ladder. The competitive playing field becomes much more level as a result, plus it leads to an expansion in the offshore marketplace for even higher-grade goods and services. The domestic economy benefits in two ways: first, it can develop and sell more of its high-value goods and services to the developing market; and second, the falling prices that globalization permits increase purchasing power and living standards everywhere.

The dynamics of globalization have been aptly demonstrated in the past. Consider Japan, for instance. In the past 40 years Japan has developed from a manufacturer of cheap, unreliable goods to a major offshore competitive threat and then to a major offshorer in its own right, not to mention that it is now one of the most sophisticated consumer markets on earth. Something very similar is likely to happen to China and India over the next 20 to 30 years.

The bottom line? Globalization is a long-term process based on economic fundamentals, not a destination. We will never actually get there. But the key is to realize that globalization is not a zero-sum game – it is a game that everyone can win.

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

EDC At Large

GLOBAL EXPORT FORECAST

Twice a year, EDC produces the "Global Export Forecast," a comprehensive report examining Canada's export potential including a look at our trading partners and opportunities in each major sector. The spring edition, entitled "*Slowdown and the Domino Effect,*" was the subject of the spring *Let's Talk Exports* presentations to exporters, representatives of industry associations and financial institutions across Canada by Stephen Poloz, EDC's Senior Vice-President, Corporate Affairs and Chief Economist. The full text of the Global Export Forecast and news releases presenting the forecast for each province are available at **www.edc.ca/mediaroom**.

EXPORT *CHECK* – NOW UP TO 50% OFF

EDC's EXPORT *Check* reports, which provide Canadian exporters with EDC's opinion on their potential transaction with a foreign company, are now available at a 50 per cent reduced price. With EDC's online EXPORT *Check*, exporters can quickly and easily obtain valuable financial and credit information using our database of 20 million U.S. buyers and millions more in 50 other international markets. **www.edc.ca/exportcheck**

EDC TO DELIVER NEW ONLINE PROGRAM: eEXPRESS CLAIMS

For EDC to retain a competitive edge in the market place, it is proud to offer online services that promote accessibility of EDC's services and provide customers with efficiencies in their operations.

As such, EDC's Express Claims program, whereby policyholders are not required to submit supporting documentation for claims up to 2,500 USD/CAD has been enhanced so that EDC can now accept claim applications that are submitted online in addition to those that are faxed or mailed in.

This on-line insurance claim filing interface for customers will permit 24/7 claims' submissions, control data capture and further reduce the amount of time spent in manual processing, for claims up to $2,500. eExpress Claims will be accessible through the Receivables Insurance Centre and will also enable customers to monitor the status of their claim online at any time, without having to contact a Claims Services Manager for information.

Expected to launch in May 2006, this program is the first of its kind by an Export Credit Agency. For additional information on this innovative program, please contact one of EDC's Claims Services Managers at **1-866-638-7946** or visit **www.edc.ca/claims**.

NEW EDC OFFICE OPENING IN MISSISSAUGA

Given the size of the Greater Metro Toronto area and in order to serve all its customers more effectively and efficiently in the region, EDC is opening an office in Mississauga in early June. The address will be: Suite 805, 1 City Centre Drive, Mississauga, Ontario L5B 1M2.

AWARD-WINNING ENVIRONMENTAL EXPORTERS!

EDC sponsored the Industry Award for Export Performance presented at the GLOBE 2006 Award Gala on March 31st in Vancouver.

This award is presented to an environmental technology or service company that has demonstrated the drive, talent and innovative spirit to have successfully carved out a place in the global environmental marketplace.

This year's winner, EDC customer Advanced Glazings of Sydney, Nova Scotia, manufactures and markets sustainable and commercially viable technologies related to sunlight, including Solera™, for the architectural daylighting market and InsolCore™ for the greenhouse market, both based on transparent insulation technology. **www.globe2006.com**; **www.advancedglazings.com**

THE FUTURE OF GLOBAL TRADE: BLOCS, CHAOS OR FLAT NEW WORLD?

Five leading economists present their visions for the future of global trade at the International Economic Forum of the Americas, Hilton Bonaventure Hotel, Montreal, June 7, 2006. Speakers include Stephen Poloz, Senior Vice-President, Corporate Affairs and Chief Economist, EDC; Stephen Everhart, Managing Director & Chief Economist, Overseas Private Investment Corporation (OPIC), New York; Wendy Dobson, Professor and Director, Institute for International Business, University of Toronto. Moderator: Chris Ragan, Professor, Economics, McGill University and special introduction by Anne Krueger, First Deputy Managing Director, International Monetary Fund, Washington. **1-866-865-2225; www.conferenceofmontreal.com**.

NEW EDC MANAGER FOR SUB-SAHARAN AFRICA

Rizwan Haider has been appointed as the new Regional Manager for Sub-Saharan Africa. Taking over from Jean-François Croft, Haider is a seasoned international banker with many years of experience on the African continent.

Haider held various positions with different financial institutions, culminating in his final role as Group Chief Operating Officer at Ecobank Group, a regional banking institution with operating banks in 12 African countries.

Within this key market for many Canadian companies, specifically in the natural resources sector, Haider will work to identify opportunities for EDC and its customers. **rhaider@edc.ca**

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca.

Insurance

Are you sure your foreign buyer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your buyer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

How secure are your investment loans?

With EDC Political Risk Insurance of Loans, we offer increased protection for your loans from political and economic catastrophes.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Bid Security Insurance (BSI) and Performance Security Insurance (PSI) which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For more information on these products visit **www.edc.ca/insurance**

Financing

Want to turn your export sale into a cash sale?

With EDC Direct Loans, it can happen. EDC arranges financing agreements with foreign buyers, or foreign borrowers on behalf of foreign buyers, for the export of Canadian capital goods or services.

Does your foreign buyer need a loan?

Perhaps EDC Lines of Credit can help. EDC has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign borrowers can lend the necessary funds to foreign purchasers of Canadian capital goods and services. Check out a full listing of available Lines of Credit on EDC's website at: www.edc.ca/loc.

Need an investor for your export-related venture?

EDC participates in equity investments and can invest as a subsidiary investor in projects and companies that generate export-related benefits to Canada.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their pre-shipment working capital needs. EDC will guarantee up to 75 per cent of a loan made by a bank to the exporter involving a specific export contract.

For more information on these products visit **www.edc.ca/financing**

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For more information on these products visit **www.edc.ca/bonding**

Online Services

Want to assess your credit risk – FAST?

Determine the credit profile of more than 70 million buyers, online and anytime, with EDC EXPORT *Check.*
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign buyer time to pay and protect against nonpayment with EDC EXPORT *Protect. Quick. Secure. Affordable.*
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT *Finance Guide centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.* www.edc.ca/efg

Online Information Services

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Are you ready to enter the export market?

Test your readiness by completing EXPORT *Able?, an online questionnaire to help you prepare for your entry into foreign markets.*
www.edc.ca/exportable

Small Business

Can you afford not to get paid?

Why risk it? With EDC's small business Accounts Receivable Insurance, up to 90 per cent of your losses are covered. Call our Small Business specialists at **1-888-332-9398**.

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee (MARG), smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Looking for fast financing for your small business?

In partnership with Northstar Trade Finance, EDC can provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. More information is available at www.northstar.ca.

Is your buyer demanding that you post a bond?

Check out EDC Simplified Contract Bonding, a streamlined application/approval process developed specifically for smaller exporters who require contract or surety bond guarantees.

For more information on these products visit **www.edc.ca/sme**

Developing Markets

Looking for advice on exporting or investing in developing markets?

EDC's International Markets Team specializes in understanding both the risks and the opportunities of doing business in developing markets. EDC's vast network of business relationships and our on-the-ground presence in key markets give exporters access to up-to-date competitive intelligence, helping them to identify new export and foreign investment opportunities.

For more information call **1-866-638-7916**

TOP TEN
QUESTIONS WE HEAR AT EDC

Many Canadian companies aren't clear on the products and services that EDC provides. Based on the questions put forward by Canadian exporters and investors, our in-house sales and support team has compiled a list of the Top 10. In the last issue, we examined the top three: *What is EDC*? *What does EDC do*? and *Can EDC help me with my cash flow?* In this issue, we examine three more:

EXACTLY HOW CAN EDC HELP MY COMPANY?

The answer to this question depends on your particular business need. For example, are you looking for new customers? Do you need more cash? Or are you concerned about not being paid? We can help you cope with these issues, but every case is different and we deal with each one individually.

For specific answers and solutions to your unique needs, visit our website at **www.edc.ca** or contact us at **1-888-332-9398**.

WHAT IS A BOND, AND CAN EDC ISSUE ONE?

A bond is a financial guarantee to your customer that you'll abide by the terms of the contract that you've both signed. EDC doesn't issue bonds directly to you. Rather, we work through a third-party such as a surety company.

Before issuing a bond, the surety company will require that you provide security, often by freezing cash in your account. This protects them if you fail to perform and your customer calls the bond – that is, your customer demands that the value of the bond be paid out.

We help by guaranteeing to the surety company that they will be paid if your customer demands that the bond be paid out. This frees up your cash flow and, if your customer does call the bond, EDC will pay the surety company so you don't have to. For more information, visit our website at **www.edc.ca/bonding**.

HOW DO I START MOVING INTO NEW MARKETS?

Researching new markets demands a lot of preparation and the people at Canada Business can help; call them at **1-888-576-4444** or visit them at **www.cbsc.org**. Another resource is Team Canada Inc; call **1-888-811-1119** or refer to **www.exportsource.ca**.

EDC has developed a 'how to' guide called *Discover New Markets* which outlines the six steps you need to take before you start trying to sell to new markets. Go to **www.edc.ca/newmarkets** to get your free copy.

Michael Toope
Editor

I was very pleased to receive comments from readers on the stories that appeared on the winter 2006 edition of *ExportWise*. Your feedback on what we're doing well, where we've erred and what else you'd like to see is very helpful to me and the team of people that work on the magazine. Excerpted below are a few comments from recent letters.

David Garrott wrote from the United States about the profile of Wide Range: "I have been doing business with Wide Range for several years and I have known Mr. Dell for many more years. He, Perry, Don and their staff know how to build a strong and trusting business relationship. Working from the States I have learned quite a bit about moving product cross border. It seems that each Province has their own service providers who do that Province better than, say, a service provider from outside that area. An example is Direct, Winnipeg, MB (Grant Hekle) and STCH, near Montreal, PQ (Jean Duval). I have been working with these gentlemen also for the past several years and I can only sing their praises. If you are looking to expose other excellent Canadian transportation companies please do not leave these service providers off your list."

Scott MacDonald of MacDon Industries Ltd. reminded us that his company's pull-type and self-propelled windrowers and specialty headers are not just for Russian-built combines as we wrongly stated on page 20 of the winter 2006 edition. We should have simply stated that MacDon's windrowers and headers are for combines for world markets. Our apologies to Mr. MacDonald and his team at MacDon for any inconvenience this error caused.

We were thrilled to find out that David Pastirik, the Co-ordinator of International Business at Niagara College is using *ExportWise* to help prepare Canada's next generation of international business leaders: "I teach International Business at Niagara College, and we discuss the EDC quite a bit. In fact, is it possible to receive 10 copies with every edition so that I can use it in my classroom?"

Michael Needham, President of SimEx (cover story, *ExportWise*, winter 2003) noted that we tried some new things in the winter 2006 edition: "Your team blew the door off with its Winter 2006 Edition!" and found the story on Russia particularly useful: "Russia is the great unknown – and your timely article tackled it well…great photos and solid info made me think SimEx is overlooking a big opportunity despite entertainment not being a priority sector."

Michael Toope
mtoope@edc.ca

A FRIEND AT CIDA brought to our attention the existence of a facility that complements EDC's services to Canadian firms establishing themselves overseas – CIDA's Industrial Cooperation Program (CIDA-INC). This program can support firms considering an investment or venture overseas. CIDA supports viability studies and training for Canadian firms of all sizes looking at investment opportunities in Asia, Africa, South and Central America, the Caribbean, the Middle East and Eastern Europe. CIDA grants to Canadian firms attempting to become "investment-ready" run from $100,000 to $500,000. There are CIDA-INC officers in 120 countries where CIDA operates. For further information, please visit **www.acdi-cida.gc.ca/inc**.

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Canada EDC

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398.**

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777.**

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At Export Development Canada (EDC) our wide range of financial services, in combination with our partnerships and global reach, means we can provide Canadian businesses like yours with the keys to export success. With more than 7,000 customers exporting to more than 200 markets around the world, we have been helping Canadian companies succeed abroad for more than 60 years. If you'd like to learn more about how EDC can help you grow your business in markets you never thought possible, contact us.
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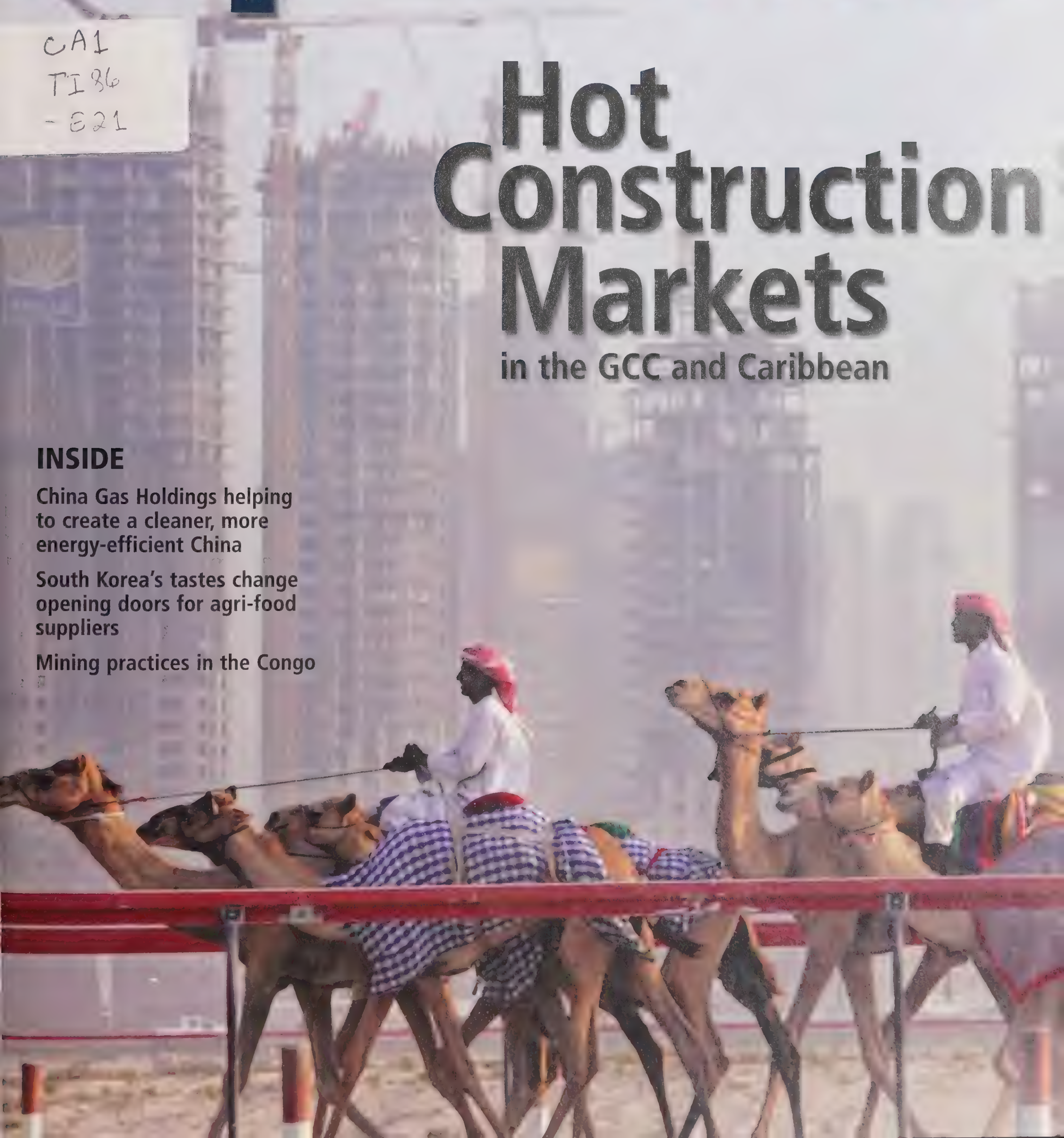

Hot Construction Markets

in the GCC and Caribbean

INSIDE

China Gas Holdings helping to create a cleaner, more energy-efficient China

South Korea's tastes change opening doors for agri-food suppliers

Mining practices in the Congo

My First Six Months as EDC President:

Raising Our Stake in Canada's Trade

BY ERIC SIEGEL

Photo: Martin Lipman

Eric Siegel,
President and Chief Executive Officer, EDC

It has been a year since EDC's Board of Directors appointed me acting President. I was greatly honoured when the Government of Canada fully confirmed me in that role six months ago. I am excited by this opportunity to help grow Canada's trade.

In my 28 years at EDC I have seen many shifts in world trade, and the way Canadians participate in it. The difference today is the depth and speed of change. A lot of our assumptions about trade and how to be good at it have gone out the window.

Global trade as a share of world economic output has grown in the past 15 years to 60 per cent from just below 40 per cent. In Canada it moved to 72 per cent from 50 per cent. In the world's fastest growing emerging markets – China, India, Brazil, Mexico, and Russia, it has doubled and in some cases tripled since 1990. It's a world that presents us with more opportunity than ever, and more competition.

When I talk to Canadian business and government leaders, there is one point of agreement: Canada's future prosperity depends on growing companies that are internationally competitive. While today's global companies may be bigger in revenue, they are frequently operating in narrower market niches. Bigger need not mean dominant. Smaller competitors clearly can develop dominance in their own market niche.

That's where EDC can contribute. In 2006, EDC established an Industry Stakeholder Panel bringing together 18 business and industry associations with a shared interest in trade. Our first act was to fund a comprehensive survey of 1,500 executives. We got a much clearer picture of what exporters are thinking, and what they need as a result. EDC focused on that input and those gaps. I'd like to outline some steps we have taken over the past six months.

We substantially increased the number of EDC employees interacting daily with Canadian exporters and investors. They will be supported with an operational system that better manages accounts, captures and responds to business development opportunities and routes inquiries more efficiently. We also started revamping how we process our loans, including the adoption of end-to-end loan procedures to provide faster and more predictable outcomes on EDC loans.

In March, the federal budget offered new regulatory changes enhancing EDC's ability to invest in private equity and venture capital funds. The changes also allow EDC to invest in international partnerships that can also benefit Canadian companies through procurement, market intelligence and contacts. In June, the Government approved two such transactions in India and Mexico.

Increasing EDC's presence in-market is critical. In March, I was on hand in India for a trade mission and a summit of Canadian and Indian CEOs. In Mumbai I announced EDC will establish a second permanent representative in India in that city in 2007. In May, I went to Russia for the first time in three years on a special program launching our first permanent representation in that country, based in Moscow.

The dynamism I saw in those markets is exceptional. They are countries where Canadian capabilities nicely complement needs, yet Canada is punching well below its weight. In 2006 EDC facilitated $750 million in business in Russia – a 54 per cent increase over 2005 and we expect to exceed that in 2007. In India, our 2006 volume of $750 million was almost half of Canada's total exports to that country. A major benefit of being permanently on the ground in India comes from the relationships we build with large Indian companies like the Reliance and Tata groups, that in turn open doors for Canadian suppliers.

If EDC is to meet the needs of its customers, we have to be flexible. We have to be quick, and we have to be fully engaged with Canadian business and our partners in the private finance and insurance industries.

We have taken many first steps in the past six months. In June, the second annual meeting of our Industry Stakeholder Panel provided encouraging feedback and told us to keep up the momentum. I look forward to reporting from time to time in *Exportwise* on that progress. ■

On June 22, the Government of Canada appointed former Alberta Treasurer **Jim Dinning** as Chairman of EDC's Board of Directors. Mr. Dinning was Executive Vice-President of TransAlta Corp., and is now chair and director of a number of private sector firms and community organizations. His extensive experience will greatly serve EDC.

ExportWise

8 cover

The construction industry today is broader than ever, encompassing a myriad of support goods and services. We take a look at two different markets with two very different drivers for growth: the Caribbean and the GCC.

14 China Gas Holdings: Fueling greener growth

18 South Korea moves away from a traditional diet

20 Saudi Arabia is spending big on infrastructure

Cover Photo. © REUTERS/Devadasan

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Exporting Success Stories

Minaean International Corporation *Vancouver, B.C.*

BY TOBY HERSCOVITCH

▲ Vancouver-based MIC is expanding its quick-build modular structures, such as gas station units, in India.

We all notice the price of gas, but not always the service station buildings where we pay for it. For Vancouver's Minaean International Corporation (MIC), these quick-build modular structures are their business. The company's light gauge steel technology allows not only new gas station units, but also cost-effective housing and retail buildings, to construct within five days of delivery – faster than most cars need a new fill-up. The company is paying particular attention to expanding these units in emerging markets such as India.

Recently, MIC's wholly-owned subsidiary Minaean Habitat (India) Private Ltd. (MHI) was awarded a $5.5 million contract from Shell India for the delivery and installation of 50 complete modular service station buildings. "We beat our buyer's expectations and the original order was extended by 15 units. Now we're looking at delivering another 50," says Mervyn Pinto, Minaean's President and CEO.

India's massive road network, which measures more than 3 million kilometers, is considered the second largest in the world. As India modernizes this network and as automotive sales grow, India foresees demand for more than 15,000 gas stations throughout the country, an opportunity MHI is taking into account in its own expansion plans.

For the latest deal, EDC provided a Financial Security Guarantee to the State Bank of India (Canada). They in turn supplied the required collateral for the State Bank of India to establish a $2 million line of credit to fund Minaean's working capital needs for the Shell contract.

"EDC's assistance has been instrumental in enabling Minaean to really launch itself in the Indian building industry. With EDC's support, Minaean has taken its business to the next level and we look forward to capitalizing on even larger opportunities in 2007," said Hari Varshney, Chairman of Minaean.

EDC's earlier financing, a guarantee facility of $300,000, initially allowed the company to invest in capital expenditures and the refurbishing of its Bangalore-based production unit. The recent release of $2 million by EDC helped Minaean lease and set up a 30,000-square-foot facility in Mumbai and get into full scale production within 10 weeks. This had a direct impact on Shell's decision to award the contract to Minaean.

Minaean's structures don't stop at the corner gas station. The company also makes cost-effective and environmentally-friendly buildings for retail shops, multi-story housing and other facilities, and is expanding to produce porta-cabins, office blocks, toilet blocks and canopies.

Since 2002, Minaean has been developing new building technologies for under-developed regions, for housing rehabilitation and disaster relief projects, with many prototypes and model buildings already in place in numerous states in India.

Headquartered in Vancouver, MIC achieved sales of $3.5 million in its 2006 fiscal year and Pinto expects this figure to at least double in the year ahead. Some $2 million of the total sales represents activities in India and the United States, where it operates two subsidiaries with offices in Mumbai, New Delhi and Bangalore (India), and Portland, Oregon. **www.minaean.com**

Bangor Metals Corp. *Toronto, Ontario*

BY NATASHA CAPPON

Bangor Metals sells heavy equipment components to some of the biggest names in the industry, including John Deere, Hitachi, Volvo and Electro-Motive Diesel. Through its customers, much of Bangor's products find their way to markets around the world, such as Europe for the rail industry and Latin America for mining. Close to 50 per cent of Bangor's products are directly exported, mostly to the United States.

The company is a leading Tier 1 supplier of operator cabs, machine components, and complete design solutions for manufacturers of large off-road equipment. "With our extensive experience in fabrication and precision machining, Bangor Metals has become the go-to company for manufacturers in the rail, mining, agriculture and defense industries," says Owen Hennessey, Vice-President, Sales and Marketing. The company has seven manufacturing facilities in southern Ontario, in addition to its Toronto corporate office and Cambridge-based operating headquarters.

Bangor has a diverse, but small, group of "blue chip" customers. "Rather than trying to bring in hundreds of customers, we delve deeper into different aspects of our customers' business. Many of them now treat us as a one-stop-shop for their major components," adds Hennessey.

While many manufacturing sectors have been in decline over the last few years, Bangor Metals has witnessed exponential growth. Combining two mid-sized operations, Brute Manufacturing and Knoch Manufacturing, Bangor Metals was formed by John Mercer in 2003 to capitalize on business opportunities in the heavy equipment sector through consolidation, similar to what happened in the automotive sector in the 1990s. This strategy has proven successful; sales have grown from $44 million in 2004 to $69 million in 2006.

Photo: Courtesy of Bangor Metals Corp.

▲ Bangor Metals has seen massive growth lately, despite a decline in the manufacturing sector, with many of its products finding their way to Europe and Latin America.

Hennessey ascribes some of this success to the company's market segmentation strategy, its ability to customize products for individual customers, and its just-in-time deliveries. "Our customer base is spread across a number of non-competing industries, affording us a certain amount of cushion from the usual effects of a variable economy. Most of the key industries we deal with have also been on the up-swing over the past several years."

To finance its rapid growth, the company needed more working capital to invest in new facilities and equipment. Bangor first turned to EDC for Accounts Receivable Insurance to help expand the rail business of its Brute Manufacturing subsidiary. This protection enabled the company's bank to provide more working capital. As Ross Bowser, Chief Financial Officer, explains: "EDC realized that our business is export-driven and was instrumental in putting together an export insurance package that fit our business. EDC support has been a key ingredient in allowing us to expand in such a short time." **www.bangormetals.com**

Burgess Baskets *Newport Station, Nova Scotia*

Photo: Courtesy of Burgess Baskets

▲ Family-run Burgess Baskets' customers depend on the rugged durability and warmth of their wood products.

BY HUGH ROSE

Remember the wooden apple baskets made of thin strips of wood, a few metal staples and wire handles? Those reminders of the good old days are still being created in rural Nova Scotia. Despite being small, being from a remote part of Atlantic Canada and having a niche product, Burgess Baskets has built a business that includes exports.

Founded in 1990, Burgess Baskets is a family business that builds fruit baskets out of hardwood veneer, using timeless technology and hand craftsmanship. It produces various sized baskets as well as the berry basket, which are sold domestically and to U.S. customers.

"Building a basket is a simple thing, but to get good at it and produce volumes where the company can make a profit takes a long time," said Maria Burgess, co-owner of Burgess Baskets. "Our customers depend on the rugged durability of a wood product. In the marketplace, traditional, rustic-looking wood products are the perfect 'display case' for fruit and vegetables. The warmth of wood enhances marketability."

Since its inception, the company expanded three times and grew to employ 55 people in the small community of Newport Station. Then devastation struck in 2004 when a fire leveled the facility, leaving nothing but twisted remnants of a tin roof.

Slowly and carefully, the business was rebuilt. Financing was the major challenge and remains a burden to the company. Their main customer was no longer able to buy everything they produced, having turned to other sources. They had to begin to market themselves. "We had barely heard of marketing before the fire," said Burgess.

With the efforts of many partners such as EDC, Atlantic Canada Opportunities Agency, the province of Nova Scotia and Scotiabank, Burgess Baskets has begun to re-establish itself and may yet be more sustainable in the long run.

"We recently started using EDC and rely on them when we ship to the United States," said Burgess. EDC provides Pre-Shipment Financing and Accounts Receivable Insurance so the company can have more working capital and the confidence, when they export a week's worth of work, that they are protected against a missed payment from a customer.

Today, the company has increased its capacity and is developing a new product for the crab fishery. It has modernized its business with a website aimed at reaching more customers, and a new export-driven marketing philosophy. Its positive attitude, so necessary in any small enterprise, remains unchanged. **www.burgessbaskets.com**

TORR Canada Inc. *Montreal, Quebec*

BY TOBY HERSCOVITCH

Photo: Courtesy of TORR Canada Inc.

▲ With $40 billion a year being spent on water treament globally, TORR Canada is seeing record revenues.

As environmental concerns within the oil and gas sector intensify, TORR Canada is well-positioned for growth.

The Quebec-based water treatment firm designs, manufactures and markets reusable petroleum-absorbent cartridge technology to separate hydrocarbons from the water. TORR offers unique technology that extracts small droplets of oil from produced water, a by-product of oil exploration and production. This proprietary technology, TORR™ (Total Oil Remediation and Recovery), combines several separation principles into one system and removes and recovers oil droplets as tiny as two microns.

Ultimately, this technology allows the industry to recover more of its valuable oil, while also returning cleaner water to the environment.

How much water is actually produced in getting oil from the ground? "With a mature field, the ratio could be seven barrels or more of water for one barrel of oil," said Jacques Drouin, TORR's Senior Vice-President and Chief Financial Officer. On average, the ratio is three to one.

Every year more than $40 billion is spent worldwide dealing with this problem.

Not surprisingly, TORR's business is booming. By the end of March 2007, the company had generated revenues of more than $16 million compared to less than $3 million for the same period in 2006. "Not only have we generated the highest revenues ever, but the system we sold for the Triton Platform (U.K.) in the North Sea has started-up and we completed the delivery of an even larger system to be used in Kuwait," said Alain Ferland, CEO.

All of the company's products are exported to countries in Europe, the Middle East, North America and Asia. The company was recapitalized and restarted in spring 2003 with a new business plan and a new commercialization strategy. The name was changed from Environmental Applied Research Technology House (EARTH) Canada to TORR Canada Inc. in November 2005.

"We have built a strong relationship with EDC and the National Bank of Canada, giving our company secured loan facilities that we can access on demand. This has helped us finance a large part of the pre-shipment direct costs associated with export contracts, with guarantees to the bank granted by EDC," said Drouin. The company has also benefited from EDC's Master Accounts Receivable Guarantee which enabled it to increase its line of credit. **www.torrcanada.com**

Risks, Responsibilities and Real Benefits: EDC Hosts Session on Democratic Republic of Congo

More than one quarter of EDC's business is in emerging markets. Many of these countries present higher levels of risk such as those related to corporate social responsibility (CSR), including the environment, business ethics, and human rights. Since 2002, CSR has been an operating principle at EDC and the corporation has extensive practices and policies in place to ensure it operates in a socially responsible manner as it fulfills its mandate.

EDC traditionally assesses risks in the context of a specific transaction brought to the corporation for consideration. Last fall, a number of extractive industry proposals came forward for projects in the Democratic Republic of Congo (DRC), proposals that raised issues broader than the context of any single transaction. EDC realized that advice and feedback from a wide range of sources would help in the determination of whether it could support projects in this market in a socially responsible manner.

On May 24, EDC brought together more than 40 country and sector experts drawn from the mining industry, academia, private and international financial institutions, non-government organizations, and other government departments and agencies. This group had a combination of experience in the broader issues raised by supporting extractive industries operating in post-conflict societies, as well as significant in-country experience in the DRC.

The DRC has a wealth of mineral resources including half the world's cobalt and 10 per cent of its copper reserves. For years civil war, ethnic strife and weak regulatory or institutional capacity rendered the DRC's extractive sector unpredictable and unproductive. The mining that did occur all too often involved inexperienced players often employing questionable practices.

That situation has shown improvement in recent years, and the DRC held its first truly free elections in over 40 years. That elected government is now trying to get a grip on the country's extensive natural resources to enrich opportunities, and improve services for all Congolese. The situation remains uneven in the country, but there are encouraging signs and trends.

Photo: © Marion Kaplan / Alamy

▲ With greater stability and stronger institutions, the DRC represents great opportunities for the mining sector.

Co-hosted by the President of the Canadian International Development Agency (CIDA), Robert Greenhill, the day-long session was facilitated by Canada's former Ambassador to the United Nations, Robert Fowler. A full program solicited a frank exchange of views from all participants. This event marked the first time that EDC has held a session focusing on one particular sector in a single market. Highly instructive, the workshop engaged participants on what socially responsible mining practices are possible in frontier or post-conflict countries and the implications for exporters and investors.

Canada has a strong mining sector that includes some of the world's recognized leaders in the field. With greater stability, and the development of stronger institutions, the DRC today presents tremendous opportunities for the mining industry. Not surprisingly, many Canadian companies are interested in the market. Canada also has many companies interested in supplying equipment and services to most of the major international players showing interest in the DRC. EDC does not minimize the challenges presented by the country. These include weak governance, physical security, the review and reopening of existing mining concessions and the impact of projects on local artisanal miners.

EDC also recognizes that the DRC's best chance to emerge from the conflict it has known and build stability and prosperity for its people is to develop its natural resources. EDC engaged an independent consultant, Stratos, to capture the divergent input received and report on the session. After the session, the Halifax Initiative, an NGO, stated that it was their position that EDC should not support mining investments in the DRC until EDC adopts recommendations of the Advisory Group on Extractive Industries. Other participants took a different position, arguing that those with robust CSR practices should not withdraw from the DRC, leaving the resources to be developed by the world's worst practitioners.

The historical record of the DRC's mining sector is mixed. The sheer size of its mineral wealth helped fuel the exploitation and abuse that led to its impoverishment. Many of the workshops' participants believe that it is possible to develop Congolese resources in a socially responsible way that can make a clean break from that past. EDC can play a role as a financial partner and risk mitigator to ensure development in markets like the DRC meets the environmental, ethical and human rights standards expected by Canadians. The session provided a very practical and pragmatic focus on the specifics of mining in one country. There are many post-conflict societies in the world, and EDC will use a similar format to assess the risks it faces in those markets. ■

For more information, see **www.edc.ca Congoworkshop**

Construction Opportunities

on the RISE

BY PETER DIEKMEYER

In the past, the construction industry has largely been viewed in terms of big, turnkey projects. Today, it's clear that the industry has changed, at least in the context of exports, and is now much broader than ever, encompassing just about any good or service targeting residential and commercial, institutional and public works. And while the sector is doing well at home, Canadian companies need to look further to ensure their future success.

Various regions of the world, driven by differing demands, are creating many opportunities for Canadian construction companies – particularly those with expertise in the diverse niche markets and support sectors, and specifically, those companies able to exploit these niches and gain access to the construction global supply chains.

In this article we look at two different markets with two very different drivers for growth: The Gulf Cooperation Council (GCC) and the Caribbean.

Substantial growth in the GCC is currently spurred by local demand for massive amounts of construction, driven by local ambitions to position the GCC as a global financial and tourism hub. Tapping into this market can often lead to huge opportunities, particularly given the GCC's vast holdings around the world. On the other hand, growth in the Caribbean construction sector is fueled largely by a demand for North American standards for accommodation, ultimately driven by tourism. This is a niche of a different magnitude, but one that presents many opportunities for Canadian companies.

The Canadian construction industry: strong, but poised for growth

"The construction industry has seen a real boom in recent times, particularly in the Western provinces," says Marie-Claude Erian, EDC Sector Advisor for Infrastructure. "There are huge projects going on right here in Canada – but this boom won't last forever and businesses need to prepare for that eventuality."

According to Erian, EDC has targeted both the Gulf Cooperation Council and the Caribbean as areas where Canadian construction-related companies can make an impact. "Last year we did close to $6 billion worth of insurance and bonding to some 800 companies in the construction supply chain," says Erian. "But despite developments in those two regions, they accounted for only a small share. So there is a lot of room for growth."

Construction is one of the key drivers of the Canadian economy. So naturally almost any sector initiative is going to involve big dollars.

Here in Canada, the industry produces $170 billion worth of goods and services, which works out to close to 12 percent of the country's GDP. Exports alone, which are slated for some 125 international markets, comprise $34 billion of that total.

The range of those exports is impressive, though defining precisely what constitutes "construction" is not always easy. While most experts agree that just about any good or service targeting the residential, commercial, institutional and public works sectors qualifies, the range is quite broad.

For example, exports to the GCC and the Caribbean include traditional engineering and architectural services, project management, as well as manufactured goods such as control systems, building materials, doors and windows and even construction equipment.

◂ At about 190 stories high, the Burj Dubai stands to be the tallest building in the world, when completed in January, 2009.


Photo: Courtesy of Moriyama and Teshima

Canadian architecture and landscape planning company Moriyama and Teshima is involved in the Wadi Hanifah Restoration project in Riyadh, after gaining a foothold by doing design work in Saudi Arabia's national museum.

But exports also include semi-processed raw materials such as crushed stone, wood and cement. According to Erian, some of these items are actually available in the GCC and Caribbean, though not always in the quantities and prices which Canadian suppliers can deliver on. The bottom line is that the range of Canadian construction companies that can benefit by boosting their presence in these key markets is fairly broad-based.

Despite their differing geographic profiles, the GCC and Caribbean have some similarities. Both are part of integrated regional economies located within strategically important bodies of water. Both are fast-growing, emerging markets comprised of independent states, which share similar characteristics. Neither is dominated by one economy, (though Saudi Arabia comes close in the GCC). That means exporters doing business in a country in either region can use it as a base to build their presence in others.

That said, according to Erian, the differing legal and social structures, cultural preferences, religious nuances, and differing reasons for growth in the construction sector merit that both regions be looked at separately.

The GCC: an oil-inspired boom

Hosting the world's tallest free-standing structure has long been a coveted honour among the world's up-and-coming metropolises. For a long time New York had bragging rights. So did Toronto. Other projects on the books or under construction in cities such as Shanghai, Taipei and Kuwait have at one time or another also had pretensions.

But at about 190 stories high, the Burj Dubai stands to be the tallest building in the world when completed in January 2009. Montreal-based GSM Group landed the contract to provide visitors of Burj Dubai with a unique multimedia environment. GSM specializes in the production and design of high-end exhibits for museums and entertainment facilities.

The Burj is just one of the many developments currently underway in Dubai, which is part of the United Arab Emirates. Like other Gulf Cooperation Council members (Saudi Arabia, Kuwait, Qatar Bahrain, and Oman), the UAE and Dubai in particular are using their increasing flows of oil and gas revenues to help diversify their economies through massive investments into such areas as finance, trade and tourism, in preparation for the day that the black gold runs out.

Although the UAE has almost 10 per cent of the world's oil reserves and is a major producer, Dubai's share is modest. As a result, both public and private sector players are investing a lot of money to position the emirate as a regional financial and tourist hub.

"The development is stunning in scale," says Vincent Brie, President of GSM Build, one of GSM Group's four divisions. "There has been a building boom going on for several years and many predict that it will go on for many more."

In fact, the GCC and the Middle East in general are now attracting a key share of global construction dollars. According to some estimates, Dubai alone now ranks second after Moscow in terms of the scale of construction activity on its soil, with some 24 million square feet of commercial office space being built. One statistic speaks volumes: the emirate is said to host as many as one fifth of the world's cranes.

The benefits that rising oil prices have brought to the GCC cannot be understated. GDPs throughout the region have shot up and regional confidence has skyrocketed. These trends have spurred government spending which has in large part driven an unparalleled investment boom. A staggering USD 1.1 trillion worth of construction projects are currently in various stages of development in the region.

"The growth has been impressive," says Klaus Büttner, EDC Regional Vice-President, International Business Development. "It's a strong mix of private and public sector projects. The skyscrapers and towers are more visible. But these also need general infrastructure capacity to support them, so roads, metros, power plants, schools and hospitals are being built."

Not surprisingly, the 125 Canadian firms in the region, about 30 of which specialize in construction-related activities, are more than aware of the many lucrative potential contracts. According to GSM's Brie, one of the attractions is the vision that key regional players have. "Everybody wants to be number one at whatever they do," says Brie. "That means they can be very demanding on their suppliers."

For example, GSM's client on Burj project, Emaar Properties, has the largest market capitalization of any real estate company in the world. Not only is the company developing the world's tallest building, but the structure will sit atop the 14 million square-foot Dubai Mall which is slated to become the world's largest shopping centre, topping out at close to three times the size of Canada's West Edmonton Mall.

In addition to the tower's observation deck, GSM will design the interior, concepts, story line and exhibits for the visitors' centre. After buying tickets to the Burj Dubai's observation deck, tourists travel along a half-kilometer moving sidewalk and are whisked up on speedy elevators. During the journey, they will be entertained

by a multimedia experience comprised of screens, videos and sound.

Dubai's quest for excellence means that local players want to deal with suppliers that are the best in the world at what they do. As a result, says Brie, Dubai purchasing personnel are very open to doing business with foreigners.

Yet despite the fast growth and lucrative opportunities in the GCC, there are challenges. "You cannot get away with treating the region like it was the Klondike," says Brie. "Clients expect you to have a long-term local presence."

The path that Canadian companies need to take to get contracts depends in large part on their area of expertise. "The only procurement that we do ourselves is hiring consultants and project managers, some of which could be Canadian companies," says Haiyan Mujarkech, Chief Business Development Officer at Dubai Properties, which has extensive projects in Dubai. "Material purchases are handled directly by our project managers."

According to Mujarkech, Canadian companies that wish to do business with Dubai Properties directly need to get qualified first. "The usual process is to send along a company profile along with a list of projects and references, along with a company financial statement," says Mujarkech. "If they meet our criteria, then they will be invited in for tenders."

While Dubai's emergence has captured the attention of media and the business community, according to Jean-Francois Croft, EDC's Regional Manager for GCC and the Middle East, the emirate represents only the tip of the iceberg in the region. "There is a lot of activity going on throughout the entire GCC. Qatar is booming and so is Kuwait. In the Kingdom of Saudi Arabia they are building six complete new cities and investing hundreds of billions of dollars in infrastructure too."

The Kingdom, which holds 22 per cent of the world's proven oil reserves, is faced with the task of integrating a fast growing and demanding younger population into its increasingly urbanized workforce. The metropolitan area around Riyadh, its capital, today hosts 5.5 million people, compared to just 30,000 in 1950. And the population is expected to double again by 2020.

The Wadi Hanifah restoration project

This rapid growth has put enormous strain on local ecosystems, particularly on the Wadi Hanifah River, which runs through the city centre.

"Over the years the local population has been dumping a lot of waste into the system. As a result, the river silted up and it did not have a constant flow and slope. This resulted in a lot of stale lakes forming in the 120-kilometre system. About 3 million cubic metres worth of garbage has been pulled out of the system so far," says Ajon Moriyama, a partner in Moriyama and Teshima, a Canadian architect and landscape planning company that has been working alongside British engineering firm Buro Happold to help clean up the water.

Moriyama and Teshima got involved with the project, one of the biggest water reclamation initiatives ever with a scope that includes a huge watershed that spans more than 4,500 sq-km, after George Stockton, President of Moriyama and Teshima Planners, wrote a paper on the Wadi Hanifah, which became the basis of further study of the system. Like many experts regarding the region, Moriyama attests to the importance of building a local presence and reputation gradually.

"We did design work on Saudi Arabia's first national museum about 10 years ago, which opened a lot of doors for us," says Moriyama.

According to Croft, the opportunities for Canadian construction companies in the region are not limited to service sector players. Suppliers of goods such as building materials have a role too. "But if you are a contractor or developer, you are often faced with shortages of material and construction equipment. There is a big demand for things such as wood, wood frames and high-end materials." That said, despite the distances involved, shipping to the GCC is not a problem due to the fact that the region is a transportation hub, says Croft.

Getting skilled workers is also a big challenge for companies doing business in the GCC. The region's red-hot economy has created many new high-paying jobs, which has absorbed a good part of the local workforce. As a result, many GCC countries have imported significant quantities of guest workers.

OVERVIEW: THE GCC

- Includes Saudi Arabia, Oman, Bahrain, Kuwait, UAE and Qatar
- Oil profits are driving regional growth. GDP of USD 750 billion (2006), is forecasted to hit USD 790 billion in 2007
- Most oil profits are reinvested domestically. Planned private and public infrastructure projects totaling USD 1.1 trillion, includes major outlays in finance, trade, tourism
- In terms of "ease of doing business," the region ranks ahead of both India and China.

Impressive growth in the GCC has been a mix of private and public sector projects. In addition to the more visible skyscrapers, there are also roads, metros, power plants, schools and hospitals being built.

Photo: © Jose Fuste Raga/Corbis

Photo: Courtesy of Grupo Abrisa

▲ The massive Cap Cana project in the Dominican Republic includes eight km of prime beachfront property.

However, when it comes to doing business in the GCC region, for Canadian companies the positives clearly outweigh the negatives.

"Clients there are huge, often global in scale. And if they like what you do, they will often be very loyal. A company like Emaar properties has holdings around the world. If you do business with them, like GSM is in Dubai, you stand a very good chance of getting contracts with them in other places where they are active," says Croft.

The ambitions of Dubai, which has immense holdings and ambitious mega-projects around the world, appear to have no bounds, with new plans constantly on the drawing board. If a Canadian company can tap into these niche markets, they stand to gain global access through multiple supply chains.

Partnering with a local player in the GCC is also important and can in fact yield even bigger benefits, especially for newcomers, due to the strong importance of personal relationships in the region, says Erian. "Better yet, wherever possible, partner with a Canadian company already active in the region. That could include engineers, architects or general contractors. But you also have to go to the market, which often means hiring a local consultant or joining a trade mission.

And obviously it's important to become educated on any government programs available as well as Trade Commissioner support."

The Caribbean: residential tourism spurs infrastructure development

On the other side of the world, another Canadian company is playing a key role in helping a regional player develop its potential. Hyprescon, a division of Louisbourg Group, has just finished exporting 112 kilometers' worth of concrete pressure pipes for use in a water line in the Dominican Republic.

According to the company's CEO Lisa Arcuso, the Caribbean nation, which has been an increasingly popular tourist destination, is currently more known for developments along the northern coast. But that's about to change.

"The Dominican Republic has some great potential that has yet to be fully exploited. However to accommodate the new hotels and developments, the infrastructure needs to keep pace," says Arcuso. "And water flows are a key element."

One of the key differences between the GCC and Caribbean regions is that in the former, business development tends to be broader-based.

As noted, construction-related opportunities in the Caribbean are centered predominantly around the tourism sector. Cuba and the Dominican Republic alone each attract about 4 million tourists a year to the region. The Bahamas pulls in another 3 million visitors.

"There are many hotels going up, but residential tourism, in which people buy homes there, is also increasing," says Stephen Benoit, EDC Regional Manager for the Caribbean and Central America. "Those projects are also generating infrastructure demand. Airports, roads, waste management projects and water delivery systems are also being built."

Canadian companies looking to expand their presence in the region have some advantages, says Benoit. "Canadians love to travel to the region. We send a lot of tourists and some retire there. Not surprisingly, we have a large pool of business people with strong familiarity in the area."

North American tourists want North American comforts

The fact that the Caribbean attracts so many North American tourists means that many of the projects currently underway are being built with their tastes in mind. For example, in addition to its 3,000 hotel rooms, when completed, the Atlantis Resort, located near Nassau, in the Bahamas, will also host a casino, lagoon and water park.

Canadian companies operating there have advantages beyond familiarity with the region. "There is a lot of talk about the relaxed attitude of "Caribbean Time" says Barry King, Vice-President of DCM Erectors, which is making and installing many of the structural components on Atlantis project. "But for the large-scale projects, developers want work done according to "North American Time," and to North American standards."

DCM, which has a long tradition doing high level export work in the United States on projects such as the new Freedom Tower, is a big backer of EDC's Caribbean initiatives. "Local developers don't always have access to the same financing pool that North American companies do," says King. "That means

Photo: Courtesy of DCM Erectors

▲ Canadian company DCM Erectors, with a long tradition of high-level exports to the United States, is currently installing many structural components of the Atlantis project in the Bahamas.

OVERVIEW: THE CARIBBEAN

- Includes Dominican Republic, Jamaica, Trinidad & Tobago, Bahamas, Cuba, and many micro-economies
- Infrastructure development, airports, roads, etc., is primarily tourism-driven, larger islands have more diversified economies
- Canada is well-respected in the region
- Key challenges include strong foreign competition, exacerbated by the rising loonie

initiatives such as EDC's $25 million loan to Kerzner International, which is developing the Atlantis Resort project, are looked upon very favorably."

Alex Hazoury, Vice-President of Finance at Grupo Abrisa, which owns Sinercon, the Dominican Republic's largest construction company, agrees. Grupo Abrisa is currently developing the massive Cap Cana project, a 120 sq-km project which includes eight kms of prime beachfront property in the eastern part of the country. The fact that the project was partially financed by EDC has yielded some benefits for Canadian exporters, says Hazoury.

"Because we are closer to the United States, we traditionally look to them first as a prime supplier, when we can't purchase locally," says Hazoury. "But lately we have also purchased a lot from Canadian companies, including doors, windows, street lighting equipment and various materials."

According to Hazoury, financing is a key challenge facing developers in the Dominican Republic. "Local banks don't have the same depositor bases as Western banks do," says Hazoury. "They are thus not able to issue loans in the amounts that major developers require. We have had to turn to international bond markets for some of our financing."

Leveraging EDC's resources

Despite the lucrative export potential of both regions, neither market should be taken lightly, says EDC's Erian. "One of the biggest challenges facing Canadian construction companies on the international stage is their size," says Erian.

"Even firms such as SNC Lavalin, which are giants here in Canada, have even larger international competitors. That means successful Canadian companies are often those who tackle riskier or niche markets and who have local partners."

The risks involved in doing business in the Caribbean and the GCC range as widely as do the cultures, political structures and other differences in the individual countries. "The political and payment risks vary depending on which country you are talking about," says Erian.

These differences are exemplified in the regions' differing legal systems. For example, some Caribbean countries are former British colonies and have well-established court systems with common law traditions. Others are more recent democracies in which the rule of law is tenuous. EDC can help companies to overcome some of the construction sector's export challenges in the GCC and Caribbean regions.

Canadians have a good presence and reputation in both regions, which helps other Canadian companies gain access to these markets. "The demand exceeds the supply, and developers have to go beyond their traditional supply chain to provide opportunities for Canadians to enter the market," adds Erian.

"We use our financial resources to leverage new business for Canadians by opening doors either on our own, or by working with partners such as trade commissioners, the CMHC International and so on," says Erian. "Often this consists of identifying needs of potential clients in export markets and arranging introductions for Canadian companies that can help meet those needs."

Meanwhile back in the UAE, construction on the Burj Dubai advances towards the 12th floor, where GSM will insert its observation deck. "This building is just growing and growing. And the region is too," says Brie. "It's very exciting and we are glad to be a part of it."

In fact, a final sign of Dubai's strength and growing importance on the world stage lies in the fact that a contender to challenging the Burj's position as the world's tallest free-standing structure is slated to be built right on the other side of town. Tentatively labeled "Al Burj," reports say that this competitor tower could – if the project gets off the ground – rise 1.2 kms in height, which would make it twice as high as the CN tower.

And there is no reason that more Canadian companies should not be going along for the ride too. They may not end up rising as high as the Burj Dubai, but they will certainly find growth opportunities. ■

EDC is hosting a teleconference on GCC Opportunities, Thursday, August 23. Please call us at 1-888-327-7117 for more information and to register.

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China Gas Holdings:
Fueling Greener Growth

BY PETER BRAKE

Photo: Courtesy of China Gas Holdings

In 2006, China generated 2,018 kWh of coal-fired electricity, accounting for more than 75 per cent of the nation's total power production. As China's energy demands grow, so does its consumption of coal. An estimated 2.5 billion metric tonnes of coal - about a third of the world's total - are expected to be consumed by China this year. But at what cost? Coal burning for power is responsible for about 50 per cent of China's air pollutants, levels which are dramatically evident in China's urban areas. Twenty of the world's 30 cities with the highest air pollution levels are located in China. And according to recent figures, China has overtaken the United States as the world's biggest producer of carbon dioxide emissions.

One of the serious negative consequences of China's rapid industrial development has been increased pollution and degradation of natural resources. In fact, pollution is increasing faster than the economy is growing.

Attempting to address this issue is one of the many priorities for the Chinese government, which has set ambitious goals for environmental protection until the year 2010. This has opened huge potential in the environmental sector in the medium term to foreign investors. Greater use of natural gas in China's urban environment has already captured Chinese public and policy attention.

China Gas Holdings (CGH) is one of a new wave of Chinese companies intent on contributing to China's growth and prosperity on a cleaner and more energy-efficient basis. As one of the earliest civil compressed natural gas suppliers in China when it began business in 2002, CGH focuses on the integrated development of natural gas pipeline networks in urban areas, distributing natural gas to residential, commercial and industrial users, and the construction and operation of natural gas refilling stations.

It is expected that the growth rate of natural gas use in China could surpass 300 per cent annually by 2010, representing as much as 8 per cent of the country's total source of energy in the future. The Chinese National Development and Reform Commission estimates Chinese natural gas demand will hit 100 billion cubic meters by 2010. The extension of natural gas technology to urban centres, providing clean energy to China's residents, businesses and transportation systems is the corporate mission of CGH.

Eric Leung, CGH Chief Financial Officer, highlights, "Our structural goal is to build our concession base; that is the area where we have exclusive operating rights, from a current number of 55 in 14 Chinese provinces, to a critical level of 70 concessions, a foundation that can enable the construction of the best and most modern natural gas infrastructure. This will allow us to concentrate our efforts on promoting greater residential and business usage within our concessions." Currently CGH numbers 2,300,000 residential users and more than 13,000 industrial and commercial clients but expects usage to increase every year for the next decade.

One of the critical steps in this mission is the construction of the natural gas

pipeline infrastructure from supply to processing point to final delivery to consumers. Securing ample supplies and building the capacity to meet demand requires time, massive effort and considerable investment.

Leung notes that CGH has relied mostly on local ability and suppliers for the building of the basic infrastructure but believes that foreign suppliers, including Canadian companies, can play a key role in providing the technology and servicing needed to enable complete installation for industry, home and transportation use.

When assessing foreign suppliers, CGH looks for a combination of technology leadership, price and after-sales service. "Price is important but not at the cost of efficiency and production," says Leung. "Reliability, safety and after-sales servicing are the most important criteria we look for from suppliers at this stage of CGH growth and development." World class technology is important to CGH because it is necessary to maintain their position as a natural gas industry leader in China. "But companies that have the technology we need must also be able to provide the training, after-sales service and parts resupply that will allow us to use the technology for maximum efficiency."

Canadian energy sector companies have already supplied to CGH, including IMW Industries Ltd. (IMW), who has been supplying CGH with complete turn-key compressed natural gas installations as well as diagnostic and technical services.

Active in more than 26 countries, IMW is a global leader in natural gas refueling technologies and has been manufacturing natural gas equipment since 1984. In 2000 IMW entered the Chinese market supplying clean compressed natural gas technologies and equipment.

IMW has recently established a wholly owned foreign enterprise (WOFE) in China with its head office in Shanghai supplying key partners/customers with quality technical sales, services and parts support domestically. This is a key strategy to growing its business over the long term within China and the many other Asian markets serviced by IMW.

Incorporated in 1958, IMW originated nearly 100 years ago in Chilliwack, B.C., as the blacksmith shop Ironsides. Pioneering some of the first techniques in roll-forming equipment for corrugated steel pipe, IMW has since evolved its manufacturing base to include leading edge non-lubricated compressed natural gas systems and related technologies for power generation, vehicle fueling as well as industrial and residential applications. The company has also been active in developing delivery systems for LCNG and hydrogen. IMW is leading the way with its clean technologies and manufacturing of non-lubricated compressed natural gas and fueling systems.

Kirk Livingston, IMW Senior Vice-President of International Business Development notes their reputation for precision engineering and craftsmanship with a focus on clean technologies and innovation is their foundation. "It's been our calling card to new markets around the world."


Photo: Courtesy of China Gas Holdings

▲ China Gas Holdings is part of the new wave of Chinese companies hoping to contribute to a cleaner, more energy efficient China.

IMW looks to be a technical partner with rapidly growing energy companies such as CGH, to showcase their clean technologies and grow their business around the world. "Our main advantage is that our products deliver very clean, fast fuel that enables energy companies like CGH to maximize return on investment while also minimizing maintenance and down-time for their customers. This can be a huge competitive advantage," says Livingston. "CGH plans for natural gas distribution in China are significant. IMW will work hard to become a strong technical partner and key supplier for CGH."

EDC is working to establish the conditions that will enable more Canadian companies like IMW to do business with CGH and break into the Chinese market. EDC has become the first export credit agency to participate with the Asian Development Bank as a co-lender in a complementary financing syndication. The loan facility, which involved CGH as the recipient, has raised the profile of Canadian business and opened doors for more Canadian companies.

IMW was already an active supplier to CGH, notes Leung, but the involvement by EDC in the lenders' group demonstrates the interest and long-term commitment of Canadian business to the Chinese market. "This is important to CGH, as our drive to be a sector leader in China requires suppliers that can support our commitment to efficiency and reliability and will enhance our competitive advantages."

Livingston echoes that message. "CGH is a significant Chinese partner. They look to IMW for technology, engineering support, installation, training and after-sales servicing that enable them to grow as quickly as they want. The Chinese market as a whole looks for suppliers that are not in it just for the quick sale, but who can demonstrate an ability and willingness to maintain a long-term relationship. Chinese companies value evidence of real interest such as localization and exchanges with senior level management that can support the decision-making process." Positive signs of commitment will open doors and facilitate new relationships that will lead to ongoing business.

A receptive buyer like CGH can enable Canadian companies to introduce innovative products and services. Providing benefit to the Chinese community and improving living conditions are core corporate responsibilities of CGH. Securing China's energy independence and improving the environment through cleaner and more efficient fuels is vital to fulfilling this role.

CGH's efforts towards building a secure, "greener" energy infrastructure for China are creating a pipeline of opportunity for Canadian companies supplying to the energy sector. "CGH is examining various energy alternatives including methane which China has in large quantities," says Leung. "Methane distribution and processing are future growth opportunities and we urge Canadian companies with expertise in this and other alternative energy sources to work with us." ■

EDC Equity Program:
Profitable Partnerships

BY DAINA LAWRENCE

In March, the federal budget offered new regulatory changes that enhance EDC's ability to invest in private equity and venture capital funds. The changes also allow EDC to invest in international partnerships that can benefit Canadian companies through procurement, market intelligence and contacts.

When Mark McQueen, President and Chief Executive Officer of Wellington Financial, arrives at his office each day, he rarely knows what to expect.

Last year alone, Toronto-based Wellington Financial bought into the new surge in the market for renewable energy by leading a $29 million investment in Ventus Energy Inc's Prince Edward Island wind farm. The firm also teamed up with company Top Aces Inc. in Montreal to purchase military jets which, McQueen quickly found out, was not a typical transaction.

In order to complete the Top Aces deal, the investment firm had to register with the United States' Department of Homeland Security and become licensed as an arms dealer in order to provide financing to Top Aces for its $6.5 million debenture, helping to purchase four Dornier Alpha-Jets from an American aircraft broker.

"Deals like that are what make our company unique, and fun, for the team," says McQueen. Many of Wellington Financial's investments are made possible through a partnership with EDC through its Equity Program, which extends its reach by adding capacity to established equity funds with a proven track record for selecting sound investments.

EDC now has $140 million in investment commitments, primarily through venture capital funds based in Canada. The program was established in 1977 and, while it has been modest, EDC did find significant growth in the export capacity of firms benefiting from the funds, with EDC participation.

In the recent federal budget, the Government of Canada announced its plans to make regulatory changes that would give greater flexibility to the program. As a result of these reforms, EDC expects that the Equity Program could grow to $750 million by 2010.

"The program has evolved significantly over the last couple of years," explains Michael Machabee, Senior Portfolio Manager, EDC Equity.

Now, in addition to assisting venture capital backed companies, the program has been expanded to embrace high growth, small- and medium-sized enterprises (SMEs) across the board. Ultimately, EDC Equity, through its investment activities, is engaged to assist Canadian SMEs to venture internationally, including emerging markets. This is accomplished through both direct and fund investing.

Wellington Financial is one such fund taking part in EDC's program. In October 2006, EDC invested $10 million in the Wellington Financial Fund III Limited Partnership, a $125 million revolving debt fund targeting companies in sectors with high export and growth potential.

Canadian Private Equity

Wellington Financial has carved itself out a unique niche within the Canadian Private Equity field, making it very appealing to the EDC program. Through limited partnership funds, they provide venture and subordinated debt to venture-backed, commercial-stage companies and companies in the middle market.

So far this year, Wellington Financial has completed six major deals and has several more in the works. "It's been a wonderful time in our industry and after a few good years it's nice to see the momentum carrying on," says McQueen.

Wellington Financial invests in a broad range of sectors including: automation, automotive parts, biotechnology, business services, light manufacturing, oil & gas, and information technology. One of the business ventures in their portfolio is a rapidly expanding software company, WMode.

Calgary-based WMode is a mobile Internet Content Distribution company, founded in 2000. Since developing the system ClearMode in 2002, WMode has expanded globally with the help of Wellington Financial. ClearMode facilitates the content management, delivery and payment of mobile Internet media, offering services such as a wide selection of games, and various ringtones and Internet-based services to mobile phone users.

Global expansion requires capital

Wellington Financial's $5.5 million debenture financing deal with WMode helped stimulate the company's global growth strategy and provide the capital needed to assist in acquisitions WMode had identified as strategic to their expansion plan.

One fund taking part in EDC's Equity Program is Wellington Financial, a company that has carved itself a unique niche within the Canadian private Equity field by investing in a broad range of sectors. This includes the rapidly expanding mobile Internet Content Distribution company, WMode. After developing ClearMode in 2002, WMode has expanded globally with the help of Wellington Financial.

Photo: Courtesy of WMode

"We were looking for some working capital and we had identified an important acquisition opportunity in the United Kingdom," explains Bob Woodward, Chief Financial Officer at WMode.

"We went to Wellington Financial for support to buy the London-based company and they helped us do that." Acquiring a London-based firm was a significant move for WMode. The expansion made them a contender for international sales on the global market.

"We provide a full service to the mobile phone carrier, while the London company only provided games. Now we're introducing games but also selling the full service to those games customers," says Woodward "Buying the company made us look extremely competitive with others in our marketplace."

WMode is ripe for expansion and ready to tackle the global "two-tier" markets, those that have mobile operators with more than a million and less than 10 million voice subscribers.

The company has identified a niche in the global mobile market by targeting these two-tier markets, but in order to keep this advantage WMode must set up shop in these countries – and for that they need an injection of capital from groups such as Wellington Financial.

"We grew up in the Canadian market," explains Woodward. "And while we still maintain a large presence in Canada, it's such a small market that the business model forced us to go international."

Wellington Financial invests in companies in high growth mode which require significant injections of capital. The majority of their growth money is sourced via additional equity, which tends to be highly dilutive and relatively expensive.

"We provide growth capital for companies of all kinds, particularly SMEs," says McQueen."If you want to grow your business you need capital to get going and to keep you going. We look at so many verticals; one day it could be technology, another day might be alternative energy, or composting," says McQueen.

"From a risk management standpoint, our goal is to reflect the economy and while we may be tech heavy, that's a result of having a specialized team that deals specifically with technology firms."

And with the help of EDC, Wellington Financial has assisted many companies in their efforts to expand. Last month, for example, Wellington announced it had completed a $12-million debenture financing for Nightingale Informatix Corporation. EDC participated directly as a syndicated partner in the financing alongside Wellington Financial Fund III.

Nightingale intends to use the funds to complete its acquisition of VantageMed Corp., an American practice management software supplier.

EDC is a partner that Wellington is happy to have in future ventures, adds McQueen. "They moved as quickly as any private equity group would and are a welcome addition to Wellington's transactions."

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South Korea's Appetite for Change

BY GLORIA LEVY

Photo: © Iksung Nah / Alamy

Hand-in-hand with a growing economy and maturing democracy, changes in lifestyle choices and an appetite for new trends and tastes seem inevitable. As increasingly sophisticated consumers in South Korea search for original food and beverage products, Canadian suppliers can take advantage of opportunities for new-to-market products.

In the aftermath of the Korean War, South Korea grew from being one of the world's poorest countries to one of its richest. In fact, from the mid to late 20th century, it has enjoyed one of the fastest rates of prolonged economic growth in history. The nation's per capita gross national product grew from $100 in 1963 to $25,000 in 2007. And since the country's return to civilian rule in 1987, competitive elections have become firmly entrenched, although government institutions remain relatively weak and politics are still characterized by regionalism and patronage. The South Korean economy, nevertheless, is strong, with active domestic and foreign bank involvement.

As the third largest Asian economy after Japan and China, and a leading industrialized nation in the East Asian region, South Korea's food consumption trends indicate they are moving away from their traditional diet, towards a more western style. Today, South Korean consumers are seeking out food products of higher value and greater convenience. They are also becoming more diversified in their tastes, preferring natural and fresh foods. And with an increase in consumer income, there is an increased emphasis on products with new tastes and added value. As a result, the demand for imported products is increasing and the agri-food sector has seen much growth.

South Koreans, however, also look to their food to provide health benefits and are very sensitive about food safety issues. The challenge for many Canadian companies in recent years has been to overcome the devastating impact of the mad cow scare in 2003, after which South Korea banned Canadian beef imports. Canadians have since had to work hard to re-establish their brand and reputation, and they've been largely successful.

Despite these recent challenges and the high tariffs for many products, Canadian agri-food exports are growing. Sales of Canadian pork products, for example, almost doubled between 2004 and 2005 and increased by an additional third in 2006, reaching $130 million. Total Canadian agri-food exports to Korea in 2006 were $493 million, down slightly from 2005, but more than double the 2004 level.

"Canada's role in the South Korean agri-food market is mainly as a supplier of high quality meats like pork, seafood, canola oil, flax seed, organic and niche home-grown products, such as blueberries that are perceived as conferring health benefits to South Korean consumers," says Mark Bolger, EDC Senior Advisor, Asia. "Interest in natural health products, such as vitamins, also continues to grow."

Of particular interest is the well-being boom South Korea has been experiencing since 2003, resulting in a dramatic rise in the consumption of health and functional foods. Opportunities exist in areas where Canada has strong capabilities and competitive advantages – such as gamma linoleic acid, grape seed oil, fish oils and probiotics – either by supplying ingredients to local manufacturers or through investment, research and technological partnerships to develop new products. Opportunities also exist in many high-value consumer segments including ice wine, confectionaries, processed meats, beer, whisky and snack foods.

While the South Korean agri-food market presents many advantages, there are some challenges. As noted, many consumers maintain a negative view on the quality and safety of imported foods and many products have limited market access. Canadian products also face significant competition from low-priced products imported from countries such as the United States, China, Australia, Chile and Thailand.

"Ongoing lifting of import barriers will continue to improve the market accessibility and price competitiveness of Canadian products," says Darcie Doan, First Secretary and Trade Commissioner at the Canadian Embassy in Seoul. "Should the Canada-Korea FTA be concluded and ratified, we can expect substantial new interest in Canadian agri-food products from South Korean importers. Canadian companies should begin to research the South Korean market for their products now, in order to be ready to respond to these new inquiries."

In addition to high tariffs, agri-food exports to South Korea are subject to a complex distribution system and some of the most rigorous, and rigorously enforced, sanitary regulations in the world. There

As a result of a well-being boom, South Korean consumers are seeking new tastes and food product that can confer health benefits.

are numerous labeling regulations which can restrict product entry. In addition, exporters often find it difficult to supply customized products to South Korean food service buyers, because the ordered volume is too small to justify the needed modifications in the manufacturing process. "With all these obstacles, the importance of a good local partner cannot be overstated," adds Doan.

Photo: Courtesy of Ocean Nutrition Canada

Ocean Nutrition Canada, leading supplier of Omega-3 fatty acids, looks for mature markets with affluent poplulations, such as South Korea.

That advice is echoed by Robert Orr, President and CEO of Ocean Nutrition Canada (ONC), a manufacturer of natural, marine-based ingredients to the dietary supplements and healthy food sectors. "As a leading global supplier of Omega-3 fatty acids, our strategy includes working in mature markets that have large enough affluent population bases to target with our products. In Asia, this includes South Korea," says Orr. "Finding the right partner is crucial. It is also important to be patient, work on building up relationships and establishing trust slowly, commit to multiple visits to the region and understand market dynamics."

When ONC first entered the region, the various local consulates helped set up preliminary meetings with potential partners. "Those introductions really gave us an understanding of the lay of the land in order to start developing relationships," says Orr, who visits his Asian clients at least five times a year. "There were some real challenges in the early days, particularly regulatory issues that go with any new jurisdiction and ensuring our products met South Korean specifications. Trade Commissioner Service (TCS) staff helped with all that as well."

As an export-oriented company where 90 per cent of its business is conducted outside Canada, ONC has relied heavily on EDC services in its expansion. "EDC represents a huge part of what we do and how we manage our receivables, especially as we are growing so rapidly," adds Orr.

Reducing the risk of buyer non-payment and creating capacity in working capital are key roles that EDC plays in helping Canadian firms conduct business with South Korea. The total dollar value of EDC-facilitated Canadian exports and investments was $852 million in 2006, $733 million in 2005 and $827 million in 2004, while total Canadian exports in all sectors have grown steadily from $2,017 billion in 2002 to reach $3,266 billion in 2006.

There are opportunities but exporters need to ensure they are protected, stresses Bolger. "Our underwriters visit the market to speak to key buyers and banks, so there is a network we can draw upon."

"For new business relationships with South Korean importers, we recommend using an irrevocable Letter of Credit to settle payment and/or relying on EDC to insure the transaction," adds Doan. "Once business relationships are well established, the risk of non-payment lessens considerably."

Exporters that are new to this market or have yet to establish a long-term relationship with their buyers should take caution when the buyer cannot point to a history of payment for foreign imports. Also, Korean corporations are often comprised of a series of subsidiaries and affiliates. Taking the time to understand these Korean inter-relationships can help standardize the terms of payment being offered and provide a better sense of overall credit risk. Open account terms may be requested at the outset, but exporters are encouraged to get to know the buyer, its Korean bank and how a product fits with Korean consumer tastes first before agreeing to such flexibility.

Attending an agri-food trade show is a good way to test the ground for initial consumer feedback on a product and its design, and to network with potential partners. EDC participates in key shows, such as SIAL in Montreal, that bring Canadian companies together with foreign buyers and distributors from all over the world, including South Korea. The TCS in Seoul sponsors Canadian participation in South Korea's major food and beverage trade show, Seoul Food and Hotel.

Contact the TCS for more information about the next show, May 14-17, 2008, or about the South Korean market in general.

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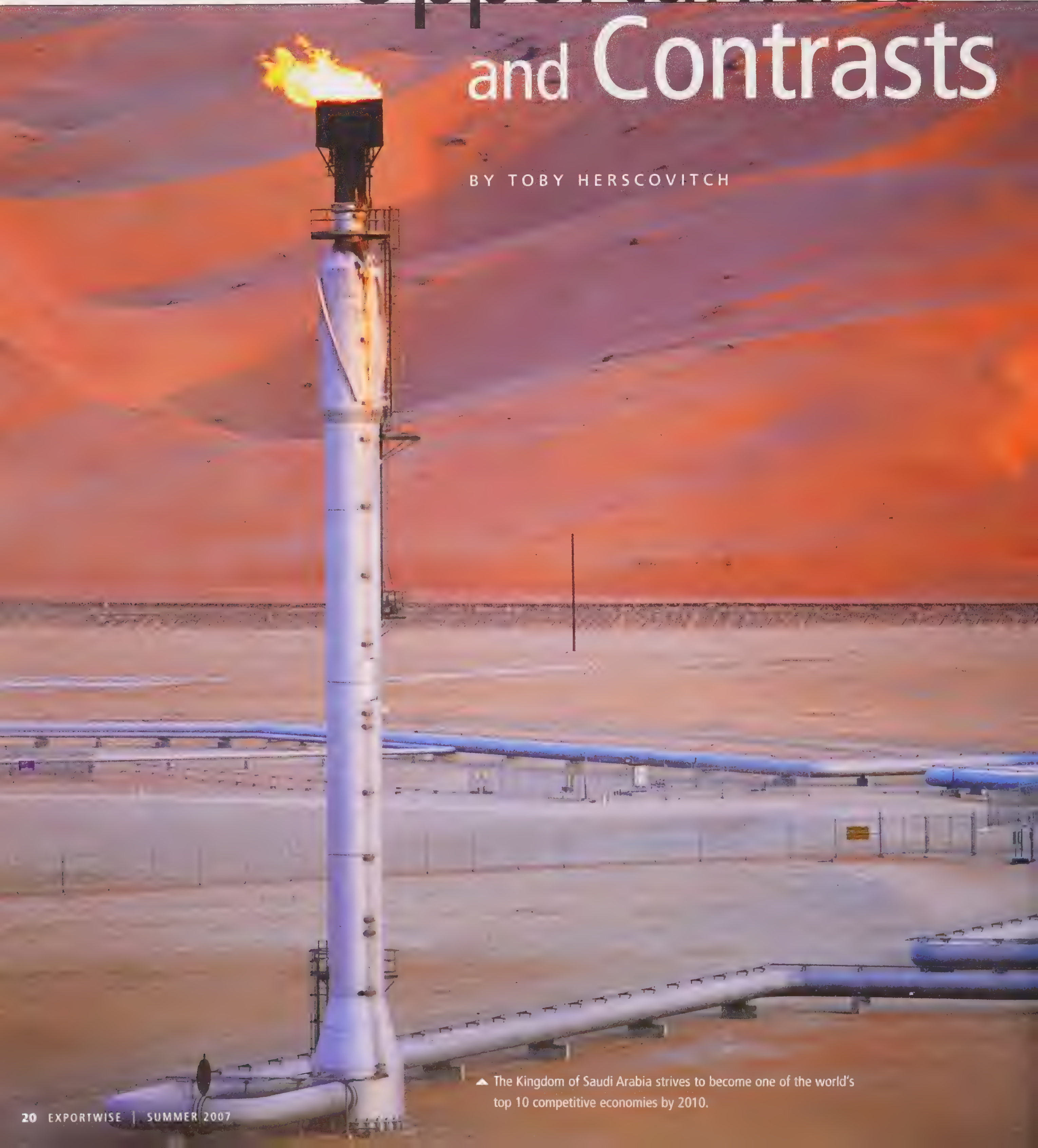
Saudi Arabia: Kingdom of Opportunities and Contrasts

BY TOBY HERSCOVITCH



▲ The Kingdom of Saudi Arabia strives to become one of the world's top 10 competitive economies by 2010.

The Kingdom of Saudi Arabia (KSA) is a land of intense contrasts. With a quarter of the world's oil reserves and a quarter of the world's largest continuous sand mass, the Rub'al-Khali desert, the country is the world's biggest oil producer and one of the harshest lands to cultivate.

Considered part of the "Cradle of Humanity," Saudi Arabia, the nation, was created in 1932 and has one of the youngest populations in the world. Sixty per cent of its 25 million people are less than 25 years old. This creates a fast-growing and energetic population who will need many more jobs in the future.

Saudi Arabia is also a land of political and cultural distinctions, a system ruled by a monarchy, the al-Saud dynasty, and a place where people abide by long-held tradition and religious beliefs. The culture places a strong emphasis on family and hospitality, which extends to loyal business partners from many countries.

"From a business perspective, KSA is the largest free market economy in the Middle East, and a member of the World Trade Organization since December 2005," points out Klaus Büttner, EDC's Regional Vice-President for Africa, Europe and the Middle East.

Two years ago, the country jumped from 67th to 38th spot out of 175 countries, in the World Bank's *Ease of Doing Business* scale. This is the highest score among the Gulf States, ranking ease of starting a business, dealing with licenses and protecting investors, among other criteria. The country also has one of the highest per capita incomes in the region.

KSA plans to spend a trillion dollars on infrastructure and other project investments over the next 15 years. "The government's driving goal is called our 10-by-10 plan, to become one of the world's top 10 competitive economies by 2010," says Sarah F. Al-Tamimi, Head of International Operations for the Saudi Arabian General Investment Authority (SAGIA).

"We are focusing on sectors where we have a natural advantage and those that are important to become a knowledge-based society." This covers the gamut from establishing top-notch healthcare and education centres to mining the country's abundant mineral deposits; from state-of-the art transportation portals to renewable energy and information technology. "We believe Canada has a great deal to offer in all these fields."

"This is a country that needs everything and has the money to pay for it. The Saudis themselves are asking me: Where are the Canadians?" says Andreas Weichert, Minister Counsellor at the Canadian Embassy in Riyadh, who has spent much of his career in challenging world markets such as Jordan and Kazakhstan. "The opportunities here now and in the next five to 10 years will exceed anything I have seen in my previous postings."

Canada's official numbers peg exports to KSA, our largest trading partner in the Arabian Peninsula, at a modest $540 million in 2006. "This doesn't take into account large project-driven service contracts by consulting companies like SNC-Lavalin and others," says Büttner.

Weichert concurs: "As much as a billion dollars of Canadian business may not be reflected in this trade picture, including project investments and items like the 50,000 Crown Victoria cars produced in Ontario which were sold to Saudi Arabia last year through the U.S. parent company."

To protect their assets in the country, Canadian firms turned to EDC mainly for credit insurance and performance bonding solutions in 2006. Trade finance is expected to grow steadily as EDC anticipates posting a first representative in the Gulf Cooperation Council (GCC) region soon.

Several major Canadian companies are already well established in this country. For example, Bell Canada helped manage Saudi Telecom when it started up its operations in early 2000. This past April, Alcan signed an agreement with Saudi mining company Ma'aden to develop a proposed USD 7 billion aluminum "mine-to metal" project. Similarly, SNC-Lavalin was awarded two major contracts last year with Saudi Aramco, the national oil and gas company. SNC-Lavalin has worked in the country for more than 30 years.

Photo: © Bill Lyons / Alamy

▲ The Kingdom of Saudi Arabia plans to spend a trillion dollars on infrastructure and other project investments over the next 15 years.

Sim City for real

The game Sim City, where players create online cities from scratch, has come to life here, as the country develops plans to build six full-scale cities over the next four years. "These are complete greenfield projects, part of our 10-by-10 plan. Our country only has three main cities now. The new economic cities will help us overcome problems of urban migration in the future," says Al-Tamimi. SAGIA has plans to set up an office in Canada by the end of this year to market the country's investment opportunities more aggressively.

EDC Political Risk Analyst Derek Baas, who visited the country last May, adds a cautionary note: "What I heard from bank representatives, journalists and economists in the country is that the extent of opportunities in some of these cities may be over-estimated, so the private sector will need to do its own due diligence before investing."

Baas adds, "I experienced a lot of goodwill towards Canadians. Although human rights issues in the country are still a concern, terrorism incidents have decreased over the past three years."

"You can't enter Saudi Arabia with preconceived notions," adds Weichert. But you can be prepared in many ways. Weichert and his Ottawa-based colleague Paul Bears, Canadian trade commissioner for the Middle East and North Africa, boil this advice down to three "Cs": Commitment, Capacity and Contacts.

Commitment: The first step to success is a triple dose of relationship building. Arab hospitality is legendary; they value loyalty and respect highly. "You have to come here, meet people, get to know each other and maybe by the third visit you'll be ready to develop a deal."

Photo: Courtesy of Canam International

▲ Canam Asia makes steel joists in Dammam.

Capacity is another boon or bane. "The scale of everything in this country is large. Recently, a Canadian company told us that they had a good first visit with a potential Saudi customer who liked their products. But they had come here hoping to sell five to 10 units and the Saudis were talking about 200 to 250. They needed to go back home and rethink their whole strategy for this region to see if they could manage it."

Contacts: You must have a partner or agent to navigate this country. Weichert warns that virtually everyone wants to be an agent and many want to sign a long-term contract. The challenge is to find someone who really understands your business and your expectations. "I have seen cases where an agent obtains exclusive rights for 10 years and then doesn't do the kind of work the company expected. But the contract is signed and sealed and at that point we can't help a company do anything about it."

Adds Bears: "Do your research, visit the region, connect with the Canadian Trade Commissioner Service and organizations like the Canada-Arab Business Council and EDC for reliable contacts."

How two companies built business in KSA

The Canam Group, headquartered in St. Georges, Quebec, designs and fabricates principally all-steel products for the construction industry. Sales exceeded $740 million in 2006.

Back in 2002, the company took on a 35 per cent stake in Canam Asia, a joint venture with Zamil Industrial Investment Company of Dammam, Saudi Arabia. The company today operates two plants, one in Dammam and the other in Ras-Al-Khaimah (UAE), which fabricate open web steel joists and structural steel decks. The seed that led to this relationship was planted in the mid 1970s.

"We met Hambro representatives in 1975 at Batimat, a key trade show for the construction industry in Paris," says Georges H-Chahine, President of Canam International, who was a consultant from Lebanon working in Saudi Arabia at the time. KSA was experiencing a building boom and Hambro Floor System, now a Canam business unit, was seeking new markets in residential construction.

"In 1976, a licensing agreement was established with Canam to fabricate and sell the Hambro System in Saudi Arabia. The product was successfully used in many projects developed by the Royal Commission."

By the mid 1990s, Zamil was ready to diversify from mainly pre-engineered to other types of steel construction projects. H-Chahine, who knew well both Zamil and Canam, initially worked out a licensing agreement for Canam's open web joist technology.

While the technology was sophisticated, the local telecommunication system was not, at that time. "There were poor connections, frequent line cuts and filters on accessing the company's systems," recalls H-Chahine. "Today, communication is much better. We can enter into their systems to follow-up on the complete process." While this aspect has been resolved, he admits there are other challenges.

"There are more limitations on foreign employment there than in other Gulf States, because they need to train and employ their local workforce. On the other hand, the cost of living in Saudi Arabia is lower than in the other Gulf countries and all your needs are available, as long as you are willing to live in a conservative community."

He echoes the views of others that the key to success in the region is a good liaison person. "You need help in bridging the two cultures. Most of all, look for a partner with competency in your field. Capital is largely available and so are many potential partners. However, it is more interesting to work with partners in the same field, who understand your products and services and who are interested in growth."

Canam has been an EDC client since 2003, mostly using contract bonding insurance in various parts of the world. EDC can help connect more Canadian enterprises to major private companies like Zamil.

"We have already started building important business relationships in KSA," says Jean-François Croft, EDC's Regional Manager, GCC and the Middle East, "with key banks, and public and private companies such as the Islamic Development Bank Group, Saudi Aramco, Ma'aden, SABIC (petrochemical giant) and the Alturki Group." The latter is a large private enterprise in diverse sectors, including construction, power and environmental services.

Photo: © Tengku Mohd Yusof / Alamy

Saudi Arabia is currently focusing on sectors that are important to becoming a knowledge-based society, including healthcare and education centres, transportation portals, renewable energy and information technology, and they believe Canadian companies have a lot to offer.

Gartner Lee Limited, a Canadian-based consulting firm that delivers sustainable environmental strategies and solutions by integrating environmental, economic and social science expertise, is already well familiar with the Alturki Group. They both signed a Memorandum of Understanding in December 2006 to jointly develop environmental business.

The firm's involvement in the Gulf region stretches back more than 20 years, primarily in water resources management in Jordan, Oman and Saudi Arabia. Since 2000, Gartner Lee's work in the Gulf has been largely in waste management, which began through a relationship with a Japanese firm.

"Once we saw the opportunities in the Gulf region, we did our own market survey (in 2004)," says Ronald V. Portelli, the company's Vice-President of Marketing. The study found that with the expected doubling of the population by 2021, there would be greater need for water/ wastewater treatment and waste management. In addition, governments in the region were putting in place legislation for environmentally responsible development.

"They needed our kind of expertise, so we completed our business plan in August 2004, started developing projects in the market the following January and set up an office in Doha, Qatar by September 2005."

Earlier in 2004, Gartner Lee had met the Alturki Group at the Americana Conference in Montreal. "The firm was interested in pursuing a potential partnership with us for environmental consulting services in Saudi Arabia," says Portelli. Owing to major safety concerns in Saudi Arabia, the company did not move forward on the opportunity at that time.

Then, during a Canada-Arab Business Council mission to the region in fall 2005, Gartner Lee again met the Alturki Group, who reiterated its interest in a partnership. The company revisited Saudi Arabia in February 2006, meeting with staff at the Canadian Embassy in Riyadh. "Their insights really put the safety and security issue into perspective…a lot had changed for the better."

In addition, Gartner Lee did its own due diligence and considered alternative partners. "The Alturki Group had a very good reputation for business integrity and our chemistry with the key players was far stronger than with those of the other firms." At time of writing, Gartner Lee was already developing projects with the Alturki Group.

Gartner Lee's sales have grown an average of 22 per cent a year since 1999 and are expected to exceed $50 million in 2007. Employment has risen from 95 to 340 people. "A firm like ours does not want to put our reputation or our staff at risk," notes Portelli. "I find the cities in Saudi Arabia are quite safe, from an overall risk perspective."

As for cultural differences, Gartner Lee has experience in many Muslim countries. "We would not send women to work in Saudi Arabia yet, but we are seeing progress in this area too."

Adds Weichert, "Don't forget this is a very young country. It has gone from camels to Cadillacs in just two generations. Things are changing very quickly." ■

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Focus on the United States

The Mid-Atlantic Region

BY DENNIS & SANDI JONES

The Mid-Atlantic region of the United States is not only the home of the nation's capital, but is also the country's major defence-procurement market and a key region for R&D in knowledge-intensive sectors such as information technology, biotech, healthcare and aerospace. These industries, as well as more traditional sectors such as chemicals to agri-food, offer many opportunities for enterprising Canadian exporters.

The Mid-Atlantic region includes Virginia, Maryland, Delaware, Eastern Pennsylvania and the District of Columbia, and has a combined population of about 25 million. The Greater Washington area alone has a Gross Regional Product of US$313 billion, making it the fourth-largest metropolitan economy in the United States; only New York, Los Angeles and Chicago are bigger. Philadelphia is the east coast's second-largest city, and the eastern half of the state is home to 21 Fortune 500 companies. Maryland may be small in size but it ranks second after California in terms of federal R&D funding; many federal laboratories are located there, including the National Institutes of Health, the NASA Goddard Space Flight Center, and the National Oceanic and Atmospheric Administration.

"The region is easily accessible from Canadian business centres and has major economic strengths," says Andrew Shisko, Minister-Counsellor (Commercial) at the Canadian Embassy in Washington, D.C. "There are significant opportunities for technology partnering in a wide range of sectors, with particular emphasis on information technology, security and defence, and the health industries. All these are very active here and have an ongoing need for new and innovative technologies."

Medical technology, healthcare and biotechnology are among the region's best export prospects, says Shisko. Greater Washington alone contains the nation's third-largest biotech cluster, with more than 700 local firms. It's also the federal government's focal point for health research, with 27 institutions engaged in

Photo: © Noel Hendrickson/Getty

▲ In addition to defence and aerospace, the Mid-Atlantic region is a focal point for medical technology and R&D.

medical R&D. In 2005 alone, federal funding for such work totalled US$29 billion. Maryland has major biotechnology companies such as Celera Genomics, as well as prestigious research centres like the University of Maryland's Biotech Institute. And as David Weiner, Consul and Senior Trade Commissioner at the Consulate of Canada in Philadelphia notes, "Philadelphia boasts great strength in the life sciences, notably pharmaceuticals, biotechnology, medical devices, medical R&D and health services, and is eastern Pennsylvania's largest and fastest-growing sector as well as its largest employer."

Information and communications technology (ICT) is another sector with promise for Canadian exporters, adds Shisko. The U.S. federal government is the largest single technology consumer in the world, and its IT expenditures are growing by more than 9 per cent annually. As a result, Greater Washington has acquired the country's second-largest concentration of ICT firms, and government procurement continues to drive the sector's expansion. Information security, photonics and e-learning technologies are especially important growth areas within this sector.

Also sprinkled over the region are myriads of companies and institutions working in defence, aerospace and security. Avionics, navigation and other specialized systems and subsystems are much in demand, as is technology for C4I (command, control, communications, computers and intelligence).

Chemical, biological and nuclear threat protection are other growth subsectors, as are products and services for border security and security infrastructure.

In addition, Baltimore has a range of financial, insurance and education services, while the Greater Richmond-Petersburg area of Virginia, where Canada has an Honorary Consul, has a concentration of agri-food industries. Greater Philadelphia, for its part, offers possibilities in the chemicals sector and in agribusiness.

Promoting Canada

The Embassy trade team vigorously supports Canadian companies that want to enter this lucrative market, or expand their existing presence within it. "Last year," says Shisko, "we responded to more than 200 service requests and introduced at least 75 new companies to the Mid-Atlantic market. We provide market briefings and contact assistance, and, because of the strong government activity in this region, we've worked hard to help Canadian companies gain access to government procurement opportunities."

As a result, the Embassy team has assisted a major Canadian vaccine company with a successful bid for a USD 362 million contract with the U.S. Department of Health and Human Services, says Shisko. "We also helped a major Canadian aerospace company ensure the renewal of a maintenance contract worth USD 250 million per year. On the agri-business side, the Canadian Consulate in Philadelphia has been working Pennsylvania officials to introduce Canadian wine to that market and, as a result, the number of Canadian wines available in the state's retail outlets has grown from zero to 17 in the past 18 months."

The Embassy trade team works with many U.S. trade organizations, including the Greater Washington Initiative, the Fairfax Chamber of Commerce, the World Trade Center Institute of Baltimore, the Virginia Economic Development Partnership, the Northern Virginia Technology Council and the Maryland Technology Council. Philadelphia is home to the Eastern Technology Council, the SMART State Initiative and the Greater Philadelphia Chamber of Commerce.

Not surprisingly, Canadian companies working in this fast-paced, competitive environment must be prepared for its challenges. "The growing emphasis on security has made employment of foreign workers in sensitive industries more problematic," Shisko observes. "Tighter export control restrictions and licensing delays have also affected the aerospace, defence and space sectors. In other sectors, security concerns have caused greater scrutiny and delays in shipments of foods, beverages and other products. And 'Buy America' initiatives remain a key challenge for Canadian exporters."

An exporter's perspective

Ottawa-based firm TalkSwitch has done well in the Mid-Atlantic market. The firm's key product is a line of small-business phone systems, targeted primarily to offices with 20 or fewer users. "We started out in 1990 with standard analog phone systems," says Tim Welch, TalkSwitch's Vice-President, Sales, "and later expanded into Voice-over-IP (VoIP) technology. We now provide office phone systems that feature seamless integration of both analog and VoIP services, all in the same box."

Unlike many companies that establish themselves in Canada before moving abroad, TalkSwitch set its sights on the United States from day one, and has been active in the Mid-Atlantic market ever since. "Going straight to the United States made sense for TalkSwitch," says Welch. "The size of the market made it easier for us to expand by finding large numbers of resellers, distributors and small end-users, and we now sell our systems all over the United States. In the Mid-Atlantic region, we've focused on the Washington, D.C. area, and also have buyers in Virginia, Maryland and Pennsylvania. Most of our customers are small businesses and professional offices, although we've recently been doing some government procurement, and our volume of business in the region has tripled in the last four years."

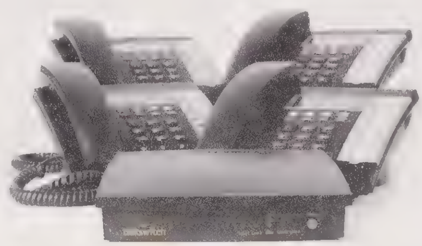

Photo: Courtesy of TalkSwitch

▲ Ottawa-based TalkSwitch, providers of office phone systems, is active in the Mid-Atlantic market and is now focusing on government procurement.

TalkSwitch does its R&D and electronic design in Canada; on the manufacturing side, the company has one facility in Markham, Ontario, and a second in Penang, Malaysia. It has so far preferred to manage its U.S. operations from Canada, but is considering a satellite office in the Washington, D.C. area. "This is becoming a high priority for two reasons," says Welch. "First, we're focusing more on government procurement, so there's an obvious advantage to being in Washington. Second, we get good support from the Trade Commissioner Service at the Canadian embassy in Washington. They've always been ready to assist us in finding the contacts we need, and they helped us when we were trying to get onto the U.S. government's Central Contractor Registry, so we could move into procurement.

"EDC has been a key supporter of our U.S. operations," says Welch. "We've been insuring our receivables through EDC since we started exporting, and we also rely on EDC for information about the companies we deal with, not only credit checks, but also broader intelligence. We don't do business in the U.S. without them."

The Canadian Commercial Corporation (CCC) provides access for Canadian exporters to the U.S. aerospace and defence market, under the U.S.-Canada Defense Production Sharing Arrangement (DPSA) and a related agreement with NASA, giving Canadian exporters privileged access to this procurement market. Canadian companies are considered a domestic source of supply when selling to the U.S. Department of Defense (U.S. DoD). The DoD acquisition policies specify that all defence purchases from Canada above USD 100,000 must be done through CCC. This service is free to Canadian companies.

Both Shisko and Welch believe that success in the Mid-Atlantic market requires a consistent, on-the ground presence, even if the company has no subsidiary office in the region. "It's easy to do business over the phone and the Internet," says Welch, "but you still need to meet with customers so they can get a sense of who you are, which is important in a market with the size and scope of the United States."

Shisko agrees. "Canadian exporters must be prepared to return here regularly to cultivate their contacts," he advises. "They also should familiarize themselves with U.S. government contract requirements and bidding process in particular, to take advantage of the procurement opportunities. And of course the Canadian Trade Commissioner Service is always prepared to assist Canadian exporters with an interest in the Mid-Atlantic, whether by identifying contacts and leads or by providing an overview of the market and suggestions about strategy."

As the experience of TalkSwitch and the Embassy's trade team shows, the Mid-Atlantic promises major business opportunities to Canadian exporters. For a well-prepared company with the right product or service, entry into this booming market can be very rewarding indeed.

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Photo: © REUTERS/A J Sisco

Is Canada Losing Ground to China?

BY BRUCE LITTLE

Sometime this year, Canada will lose its spot as the United States' leading source of imported goods. That the new leader is China comes as no surprise; it has been the world's second biggest economy for more than a decade now and, according to the International Monetary Fund, accounts for almost 16 per cent of world output this year, just shy of the United States' 19 per cent.

The speed of China's ascendancy, both as an economy and as a supplier to the United States, has been remarkable. A quarter century ago, it was the world's 8th biggest economy, but its sales in the United States simply did not register; at about one twenty-fifth those of Canada and at most, less than one-half those of any G7 country. By the early 1990s, China had displaced the big four European economies – France, Italy, Britain and Germany – in the U.S. market, leaving only Mexico, Japan and Canada ahead of it. In 2003, after shrugging off the technology industry's downturn faster than most, it moved into second place. In the battle for U.S. market share, China has since been left with only one country in its sights – Canada.

The numbers and rapid shuffle in the rankings are all very impressive – certainly to the Americans, whose obsession with China is such that the Congressional Research Service now produces a twice-yearly report on China's trade with the United States and the world. Canada, however, has never really merited this kind of close and critical attention from the Americans, who are content to object to a handful of major Canadian imports, softwood lumber being the most obvious example, and leave most other imported items alone. The last time American politicians sounded alarms about broad-based threats to U.S. jobs from imports, Japan was the source of the worry. That was in the late 1980s, when a surge of exports to the United States propelled Japan ahead of Canada as the United States' main supplier for a few years. That proved to be the high water mark for Japan, Inc. – now there's a term you haven't heard for a while – and those exports were accompanied by boatloads of cash, as Japanese companies bought icons such as the Rockefeller Centre in 1989 and Pebble Beach in 1992. That 'threat' did not last long. Americans bought back the Rockefeller Centre in 1995 and Pebble Beach in 1999. As a source of imports, Japan has been in retreat relative to other countries for the past two decades.

China, does not face the same fate. It has become a major platform for manufactured goods and is now so tightly entwined in global supply chains that Canadians can expect to face competition from China for the foreseeable future – both in markets like the United States and at home, where China has been the second biggest source of imported goods since 2002. Indeed, many U.S. and some Canadian companies have already made China part of their own supply chains, so some of the competition "from China" is really competition from North American firms with operations in China.

China is now a major platform for manufactured goods and is so entwined in global chains that Canadian companies can expect competition.

For Canadian companies that have long-counted on easy access to the U.S. market and relatively easy success there, China has become both a threat and an opportunity. To some exporters, China is a threat; a low-cost competitor that can undercut their prices with ease, forcing them to fall back on other virtues like quality, reliability, flexibility, responsiveness and speedy delivery. Yes, China has low-cost labour, but new managers running new plants with new workers still face a steep learning curve ahead in figuring out how to produce top-notch products consistently and on time for a demanding market like the United States. And if you're an American customer, there's untold value in a supplier sharp enough to spot that tiny flaw in your specifications and phone you to discuss the problem before running off those 5,000 widgets you ordered. At least one Canadian company discovered that when it outsourced production to China. Also, for American companies accustomed to just-in-time delivery, there's a big difference between the 9,881 kilometres from Shanghai to San Francisco and the 8,891 kilometres of common border with Canada.

For some exporters, however, China is a huge opportunity; a country whose voracious demand for commodities and industrial materials have sent world prices soaring, thus fattening the revenues of those fortunte enough to be a supplier of those goods.

But the range of goods in which Canadian companies compete directly with China in the U.S. market is relatively narrow, as a look at U.S. trade data shows.

Through American eyes, the U.S. numbers for imported goods show two countries that are about as different as they can be, with one exception that many Canadian exporters will find familiar. From Canada come automotive goods, petroleum products (mainly crude oil and natural gas), building products (logs, lumber and shingles) and metals (like aluminum, iron, steel products, copper and gold). Those four big categories accounted for almost 60 per cent of U.S. imports from Canada. Last year, U.S. consumers bought fewer cars and homes, and even higher prices for energy and metals could not prevent a slowdown in the growth of imports from Canada. China is nowhere to be seen in those markets, for obvious reasons, though North American automakers are already worrying about China's potential in their backyard.

China's big groupings are far different. Housewares, machinery and equipment (mainly computers and accessories) and clothing together accounted for 80 per cent of U.S. imports from China. The housewares grouping reads like a stroll down the aisles of Wal-Mart or Costco; toys, televisions, furniture, kitchen appliances, cookware and clothing. As U.S. retailers push to win over cost-conscious American consumers, they have put intense pressure on suppliers who have increasingly moved production to China and other low-cost countries. Canada is simply not a player in those categories.

More than half the machinery that the United States buys from China consists of computers, computer accessories and peripherals. But the machinery category is worth a closer look because it's the exception – an area in which the two countries do compete to some extent. Clearly Canada is losing ground to China in a number of key areas. Telecommunications equipment was a big deal when Nortel and JDS Uniphase were riding high, but since they both imploded, Canada's record in the U.S. market is a sad one. Canadian data will tell you that exports of telecom equipment to the United States have increased in recent years, but U.S. import data tell a more complete story. In 2002, the United States bought $3.5 billion worth of telecom equipment from Canada and $2.8 billion from China; last year, the figures were $4 billion and $8.7 billion respectively. Canada's sales merely edged higher over those four years; China's tripled. Telecom equipment is a kissing cousin of those computers, computer accessories and peripherals that are already so prominent among U.S. imports from China. The odds are that the trajectory for telecom – much of it from the Chinese operations of companies from the industrialized world – is straight up. In a grab-bag that U.S. statisticians call other industrial machinery, both countries recorded sales of just over $3 billion last year; in 2002, Canada's sales had amounted to $2.3 billion to only $934 million by China. The lesson is all too clear.

The rise in the Canadian dollar has dampened the competitiveness of Canadian manufacturers, making their products more expensive for customers who buy in U.S. dollars. From 2002 to 2006, the loonie climbed 38 per cent against the U.S. dollar, while the Chinese Yuan, wildly undervalued, by most estimates, appreciated by less than 4 per cent. But that is something Canadian exporters will have to live with.

Being Number Two to China in the U.S. market is, in itself, nothing to panic about. In most areas, we don't compete for the same customers. Losing sales in the markets where we compete head on, however, is a different matter.

Bruce Little is a former economics reporter and columnist with the Globe & Mail's Report on Business.

The Diversification Dividend

BY PETER HALL

Canada's trade performance was surprisingly strong in the first quarter, and by early 2008 exporters should benefit from the same structural conditions, after a rougher ride in the middle of 2007. In a word, Canadian exporters have this to thank: diversification.

Exporters ended 2006 with a bang and this momentum carried forward into the new year thanks to growing demand in many segments of the Group of Seven rich industrialized economies as well as emerging markets.

Canadian exports to U.S. markets peaked at their most intensive level in 2001 when 87 per cent of everything they supplied to foreign buyers went south of the 49th parallel. Last year that ebbed to 82 per cent.

Given that the U.S. economy eked out a paltry rate of growth of 0.6 per cent at annual rates, in the first quarter many Canadian exporters may have breathed a sigh of relief that they gambled on diversification. But headline numbers can be deceiving and this one certainly was. A closer look at the details of first quarter U.S. growth shows that American consumers – who accounted for 70 per cent of the U.S. economy – managed to expand their demand by a torrid 4.4 per cent. Since they are the U.S. economy's biggest link to the rest of the world, it seems that U.S. demand was still very much driving the global economy. And the global economy performed well in the first quarter.

Result? Canadian exports were up by an explosive 15.5 per cent at annual rates from January to March, while at the same time imports were up 8.3 per cent. This was enough of a difference to boost Canada's trade balance by just under $10 billion to $42.7 billion for the quarter. Diversification seems to be paying dividends.

At the same time, Canadian exporters got a lift from a softer dollar. Hard as it is to believe given its more recent flight, the loonie actually descended to an average of 85.3 U.S. cents in the first quarter, after hitting over 90 U.S. cents in September and averaging just under 88 U.S. cents in the fourth quarter of 2006. Expect the speculative buying of Canadian dollars, boosting the loonie to a three-decade high of 94.5 U.S. cents in early June, to curb Canadian exporters' bottom line.

But the story behind the foreign exchange story, like that of U.S. growth and its consumer demand, is complex and surprising. Fundamental changes in global trade have been under way in the past five years, and Canadian exporters are no exception. What we have seen is Canadian manufacturers importing an increasing amount of components, or intermediate goods, in recent years from overseas. Next time you check your Blackberry, open it up and you will see that its components were made in seven different countries in addition to Canada, where the device is assembled. This kind of diversification has had two effects: on the one hand it has driven down the cost of making the final product and on the other hand it has muted the effects of foreign exchange volatility. Just five years ago the Canadian dollar was near an all-time low trading around 62.5 U.S. cents. So a 51 per cent rise against the U.S. dollar in the past five years, under Canada's 20th Century model of exporting, would probably have had a much more painful effect. Here is yet more evidence of the benefits of diversification.

Granted April's Blackberry outage across North America – and executives' subsequent "Crackberry" withdrawal – illustrates what we economists label "inelastic demand", the case for the benefits of diversification also seems to apply to highly price-sensitive products. Take machinery and equipment (M&E) as an illustration. Global corporate profitability has fueled a wave of investment in M&E, so underlying demand is strong. But this industry is extremely price-sensitive, and as such the high Canadian dollar presents a formidable obstacle to foreign sales growth. Pressures notwithstanding, somehow the industry has managed to increase shipments steadily over the past few years. During the first quarter, exports rose a very respectable 8.5 per cent at annual rates.

Meanwhile, imports of M&E faltered in the first quarter, dragged down by sharply lower receipts of metal working machinery. This, however, was largely offset by a surge in imports of office and telecom equipment – a sign that Canadian companies are continuing to invest in productivity-enhancing high-tech equipment. That is another form of diversification.

Of course, it is undeniable that a lower Canadian dollar compared with late 2006 was a boon to profitability in the first quarter. A cursory glance at Canada's trade statistics shows commodities prices (traded in U.S. dollars) rose in the first quarter and that truck and auto parts shipments boosted auto sector exports 9.6 per cent at annual rates in the January-March period. Price gains also affected imports during the first quarter. Import growth was cut by more than half after removing these price effects – but not enough to keep it from outpacing exports. As such, the real trade balance actually deteriorated by close to $1 billion in the quarter. Again, the case can be made that without supplier and export client diversification, the effect on the real trade balance would have been greater.

What do all these numbers suggest? Clearly price strength has boosted profitability in the primary sector, suggesting that for the moment investment will remain strong. At the same time, Canadian exporters are diversifying into markets out-

Fundamental changes in global trade have been under way in the past five years, and **Canadian exporters are no exception**.

▲ Exporters ended 2006 with a bang and this momentum carried forward into the new year, thanks to growing demand in many segments of the G7 rich industrialized economies as well as emerging markets.

side of the United States. In addition, although volume shipments were more muted in the first quarter, they showed strength in the higher value-added sectors of the economy – high-end Canadian manufacturers are still holding their own against the soaring currency by globalizing supply chains and investing to increase competitiveness. The down side to this is that we are continuing to lose world market share. Trade intensity has declined steadily since 2001 while global trade intensity has soared – we are consistently falling shy of world trade growth. Pressures will intensify in the short term, given the loonie's rise to 94 cents in the second quarter. However, toward year-end, some relief is in sight as the dollar heads back down to the 83-84-cent level.

So where will Canadian exporters be in the first quarter of 2008? Probably back at the same sweet spot as the first quarter of this year thanks to the structural diversification of the recent past. The U.S. economy should be back in good shape. The world economy ought to get a boost from revitalized U.S. growth. The Canadian dollar should be trading between 80 to 85 U.S. cents and globalization, with or without a new world trade deal, has enough momentum of its own that diversification will continue to advance. ■

Peter Hall is EDC's Vice-President and Deputy Chief Economist. He can be reached at phall@edc.ca.

Survey of the Opinions of Canadian Exporters

BY HUGH ROSE

"As we market EDC to Canadian businesses, the information gathered in this survey will allow us to focus our efforts where we know there is room to improve and build out from our areas of strength."

In 2006, EDC established an Industry Stakeholder Panel – a group of 18 industry association leaders comprising a permanent forum for dialogue on ways EDC can better serve Canadian businesses involved or interested in global trade. Ultimately, the panel was created to provide an ongoing consultative mechanism and process with key national business and industry sector stakeholder groups and to track exporters' and investors' requirements and issues.

The Associations, from sectors across the full range of the Canadian economy, provide advice and counsel to help ensure EDC stays ahead of the curve on the fast evolving international trade scene.

As a follow-up to establishing the panel, in the fall of 2006 EDC commissioned a survey to explore international trade issues and to gauge what Canadian business leaders think about how Canada trades, how the country has evolved into a sophisticated trading nation and how EDC has served Canada and their business interests so far.

Associations asked their member companies to participate in the online survey, which was completed by 1,449 respondents throughout October and November. One-third of the companies responding had revenues of less than $1 million, 41 per cent were currently exporting and 25 per cent were suppliers of goods or services to various export markets.

"The value of the data we collected is that it measures where we stand today and allows us to benchmark for future progress," said Eric Siegel, President and Chief Executive Officer of EDC. "This type of exercise matters because it shows we are listening, and it gives EDC some direction from our customers on what type of services they would like us to offer."

Respondents said they believed that the business community is not sufficiently aware of how EDC can help them and that it is a well-guarded secret among those who do use the Corporation's products and services. EDC was told it needs to market itself to exporters and investors more aggressively and increase its partnerships with banks, with a view to developing more flexible products and services.

In terms of the broader trade environment, top markets for those surveyed are the United States and China. Mexico and Europe are secondary markets. Small and medium businesses indicated they need support for market entry – finding sales leads, partners and distributors – with marketing and branding. Logistics are an ongoing challenge, particularly in the United States, as border security and labour shortages in the transportation sector put pressure on inventory management and delivery.

The challenges of global supply chains were cited as a significant concern, as many companies seek to find a place within such chains or to build their own. Asia-based consolidation is also a major concern, particularly in retail sectors, because major buyers are seeking to streamline their procurement.

Intellectual property and patent issues are increasingly important especially when dealing with China.

"Change is a constant in trade, and maintaining competitiveness is a big challenge. EDC really needs to be listening to customers and adapting our capabilities much faster to meet their needs. The stakeholder panel and subsequent survey are a key part of that process," said Siegel. ■

Export Sectors Showing Massive Growth Divergence

BY STEPHEN S. POLOZ

Canada's emergence as a major exporter of energy and base metals has diverted attention from a massive divergence in sectoral export performance in the last few years.

Stephen Poloz,
Senior Vice-President, Corporate Affairs and C[illegible]

The spectacular rise in energy and base metals exports in recent years has captivated the interest of many, and strengthened the perception that Canada is mainly a resource play. It has also diverted attention from a lacklustre overall trade performance.

It is useful to begin the story in 2002, after the near-recession that the world saw in 2001, and after the all-time low in the Canadian dollar. In the four years since then, Canada's merchandise exports have risen by 12.5 per cent overall, which is modest growth. Remove energy and base metal exports from the equation, and the rest of Canada's exports actually fell by nearly 4 per cent in value during that four-year period – a poor performance, by any standard.

On top of that, the growth in the value of exports of energy and base metals was entirely price-driven. Energy and base metals exports rose by 68 per cent in value from 2002 to 2006, but after correcting for price effects, the volumes of these exports were essentially flat.

Scratch a little deeper, however, and one uncovers some pretty big success stories that go well beyond base metals and energy. Exports of crops, for example, have risen more than 30 per cent in value, and more than 70 per cent in volume, which means that prices have fallen but export shipments have grown by more than enough to offset that. Agricultural and construction machinery exports have risen some 40 per cent during the past four years, while exports of equipment related to the mining and oil and gas sectors are up more than 50 per cent in the same period.

Another success story has been computer and electronic equipment exports. These appear to be flat over the past four years, but that is because of a persistent decline in prices. Adjust them for inflation effects, and we find that the volume of shipments is up nearly 60 per cent in the past four years. Similarly, export shipments of heavy-duty trucks and other non-passenger motor vehicles, including military vehicles, are up 67 per cent.

A couple of other sectors have experienced middling growth, but in the context of zero growth in exports overall, even that is something of an accomplishment. Shipments of telecommunications equipment are up 22 per cent in the past four years, while export shipments of aircraft and parts are up 10 per cent.

What about cars? Autos and parts constitute over 20 per cent of Canada's goods exports, a key sector to be sure. Here, though, there is a dual outcome. Export shipments of vehicle parts have risen 23 per cent in four years, not bad considering that the value of exports is up by only about 12 per cent. What this points to is a persistent squeeze in profit margins and falling prices for the sector. But the situation has been far worse for exports of assembled vehicles, which are down 5 per cent in volume terms and over 19 per cent in terms of values.

Other sectors that have seen a real squeeze include forestry (export volumes down 8 per cent), other transportation equipment (down 13 per cent) and consumer goods (down 24 per cent).

The pattern that emerges from 30,000 feet is that the export success stories are connected to investment spending by companies, while many of the weak spots are connected to consumer spending. In today's competitive environment, companies must keep investing to stay competitive, while the consumer has a plethora of choices.

The bottom line? Canada's overall export sector is having a tough go, with growth minimal during the past four years. Yet that overall performance masks some pretty big success stories. Both trends are forecast to continue during 2007 and 2008. ■

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EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

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For information on these and other insurance products, visit **www.edc.ca/insurance**.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than 100 million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

Do you need to make a claim?

EDC has an online tool called eExpress Claims that Accounts Receivable Insurance customers can use to file claims up to $5,000. To access this tool, register with EDC Direct, the customer-only section of EDC's website, by calling your underwriter or the EDC Help Desk at 1-888-649-8287 weekdays from 8 a.m. to 6 p.m. EST. For claims above $5,000 and general claims information, call one of EDC's Claims Services Managers at 1-866-638-7946 or visit us at **www.edc.ca/claims.**

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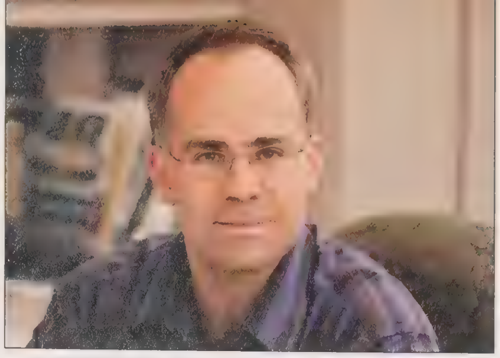

From the Editor

Michael Toope,
Editor
mtoope@edc.ca

Recommendations for EDC and responsible mining

ExportWise's cover story for the Spring 2007 edition highlighted the importance and expertise of Canada's mining industry as well as some of its challenges. The article referenced the *Advisory Group Report on the National Roundtables on Corporate Social Responsibility and the Canadian Extractive Industry in Developing Countries* published in March 2007. This report covers all of the issues of Corporate Social Responsibility (CSR) related to the activities of Canada's extractive sector in developing countries. CSR is how an organization accounts for the social, economic, and environmental aspects of its operations to ensure it benefits both industry and society. The challenge of CSR is to achieve a sustainable balance among the interests of business, shareholders, employees, other stakeholders and communities where a company operates.

The *Report* included specific recommendation from both industry and civil society to strengthen CSR practices in the extractive sector in developing countries. The ideas presented were drawn from the deliberations of four Roundtables held across the country, and are independent of the Canadian government.

The *Report* also made two specific recommendations touching on EDC:

- EDC should condition its support for extractive resource projects on a more rigorous set of social, environmental and human rights standards, and
- there should be a greater emphasis on transparency at EDC through increased disclosure requirements.

The Government has not yet responded to the *Advisory Group Report*; however one of its recommendations has already been implemented. Canada has announced its support for the Extractive Industries Transparency Initiative (EITI).

EDC actively engages with its stakeholders including peers, customers, and non-governmental organizations to contribute to increasing Canada's reputation for conducting business in a responsible manner. An example of this is the workshop EDC hosted on May 24, on socially responsible mining practices in the Democratic Republic of Congo. You can read more on page 7.

Trade Resources

A list of associations and government agencies dedicated to helping Canadian businesses succeed.

Federal Government Agencies

Business Development Bank of Canada (BDC):
www.bdc.ca

BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

Virtual Trade Commissioner:
www.infoexport.gc.ca

Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner. This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC.

Canada Business:
www.cbsc.org

Canada Business reduces the complexity and burden of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements for business.

Canadian Commercial Corporation (CCC):
www.ccc.ca

The CCC's mission is "to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions."

Canadian Consular Affairs Bureau:
www.voyage.gc.ca

The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

Foreign Affairs and International Trade Canada:
www.international.gc.ca

Foreign Affairs and International Trade Canada supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful and secure world.

Team Canada Inc.:
www.exportsource.ca

Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

Provincial Government Agencies

ALBERTA

Trade Team Alberta:
www.alberta-canada.com/tta

Trade Team Alberta [TTA] is a partnership of the Governments of Canada and Alberta, working together to enhance international business opportunities for Albertans.

MANITOBA

MTI: Manitoba Trade and Investment:
www.gov.mb.ca/trade

Manitoba Trade and Investment's mission is to help build the Manitoba economy through increased exports as well as to attract and retain foreign direct investment.

NEW BRUNSWICK

Business New Brunswick – Export Development Branch:
www.gnb.ca/0398/export/index-e.asp

Business New Brunswick's Export Development Branch specializes in providing one-on-one counselling and specialized services to export-ready companies and existing exporters.

NEWFOUNDLAND AND LABRADOR

www.gov.nf.ca/doingbusiness

A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

NOVA SCOTIA

Nova Scotia Business Inc.:
www.novascotiabusiness.com

NSBI offers a number of export development programs and services that assist small- to medium-sized businesses and local exporters entering new markets.

ONTARIO

International Trade Development:
www.ontarioexportsinc.com

The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

PRINCE EDWARD ISLAND

Prince Edward Island Business Development:
www.peibusinessdevelopment.com

The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

QUEBEC

Services for businesses:
www.entreprises.gouv.qc.ca

Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

Investissement Québec:
www.investquebec.com/en

Original and flexible, its financing products work for companies, cooperative businesses and non-profit organizations at every stage: start-up, expansion, export, R&D activities, merger and acquisition.

Contacts

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398.**

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777.**

SASKATCHEWAN

STEP: Saskatchewan Trade & Export Partnership:
www.sasktrade.sk.ca

STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

Associations

Canadian Manufacturers and Exporters:
www.cme-mec.ca

Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels. Its mandate is to promote the competitiveness of Canadian manufacturers and enable the success of Canadian goods and services exporters in markets around the world.

Canadian Chamber of Commerce:
www.chamber.ca

As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

Canadian Federation of Independent Business:
www.cfib.ca

CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector. Taking its direction from CFIB members through regular surveys, CFIB lobbies for small- and medium-sized businesses at the federal, provincial and local levels of government.

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Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **www.infoexport.gc.ca**.


ANOTHER DAY, ANOTHER RUBLE.

PROGRESS IN INDONESIA | VANCOUVER AIRPORT SERVICES | EDC EQUITY PROGRAM

EDC'S MAGAZINE FOR CANADIAN EXPORTERS

FALL 2006

ExportWise

WWW.EDC.CA

INSIDE

Brazil's maturing economy has Canada gearing up

The huge market of New York & the Tri-State area

Turkish conglomerate Doğan Holding looks for suppliers

Gaining Altitude

Canada's Aerospace Industry: A Promising Outlook

EDC Manages Softwood Duty Deposit Refund Process

After numerous challenges at NAFTA and WTO forums, Canada and the United States concluded a settlement to the softwood lumber dispute which came into effect on October 12, 2006.

The dispute centered on the assertion by American lumber producers that Canadian softwood lumber imports were unfairly subsidized by governments in Canada because the wood came from public land. Tariffs of up to 27 per cent had been imposed by the U.S. Commerce Department on Canadian softwood lumber imports. These tariffs placed enormous strain on Canadian softwood lumber producers, particularly those in British Columbia, Ontario and Quebec. The settlement enables refunds to Canadian producers of a significant portion of these tariffs.

Speeding up tariff repayment

At the request of the Government of Canada, EDC developed and is managing a process to purchase from impacted companies the amount of softwood lumber duties and interest they are eligible to receive from U.S. Customs. EDC's process is designed to purchase exporters' refunds within four to eight weeks of completion by the exporter of all purchase documentation requirements, thereby reducing the uncertainty to exporters in the expected waiting period for U.S. Customs to process refunds.

As part of the repayment process, companies have to sign an agreement of Purchase and Sale with EDC with respect to duty deposits and accrued interest held by the U.S. government that are payable to them. The Purchase and Sale Agreement will also direct EDC to pay about 18 per cent of the purchase price to U.S. interests, as required under the terms of the Canada-U.S. Agreement. A company must also complete documentation with the U.S. Customs Border and Protection Agency and direct that agency to send all duty deposits and accrued interest in its name to a designated escrow account with Citibank from which EDC will directly receive these funds.

In order to ensure equity and fairness to all companies benefiting from the Agreement and to protect Canadian taxpayers from unnecessary financial burden, the Government of Canada introduced a special charge of approximately 18 per cent, which is applied to all refunds. This charge is payable to the Government of Canada by non-participants in the EDC deposit refund mechanism no later than the end of the month following receipt of a refund from U.S. Customs. By participating in the EDC deposit refund mechanism, companies have already agreed to contribute an equivalent share of their refunds.

Help with the repayment process

EDC has established a Softwood Lumber Customer Service Centre to help inform producers and exporters about the Agreement and the terms and conditions to be met; the rights of producers and exporters; and the refund process and the required documentation. Between early September and October 12, the Centre received and responded to more than 2,700 telephone calls while carrying out the registration of companies choosing to participate. By the end of October, more than half of all impacted companies had completed the required documentation to participate in EDC's accelerated refund mechanism, and the first purchase to Companies in the amount of USD 945 million was completed on October 30, 2006.

For more information about this refund purchase mechanism, visit **www.edc.ca/lumber**.

Any additional questions regarding the refund mechanism and EDC's Purchase and Sale Agreement can be directed to EDC's Softwood Lumber Customer Service Centre.

Tel.: 1-866-819-7687
(weekdays, 8:30 a.m. – 7:30 p.m. EST)
Email: softwood.lumber@edc.ca

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Cover photo: Lufthansa CRJ900, courtesy of Bombardier Aerospace

PUBLICATIONS MAIL AGREEMENT NO 40063481
RETURN UNDELIVERABLE CANADIAN ADDRESSES TO
CIRCULATION DEPT
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OTTAWA, ONTARIO K1B 3V9
email: mds1@bellnet.ca

Vancouver Airport Services

Landing the Deal

▲ The Dominican Republic's Las Americas Airport in Santo Domingo, managed by Vancouver Airport Services.

BY TOBY HERSCOVITCH

What happens when an island becomes one of the world's premier destinations for sun seekers? If it is the Dominican Republic, it needs modern airports – six of them to be exact. Enter Vancouver Airport Services (YVRAS)...

YVRAS is the leading airport investment, management and development company in North America, managing consolidated revenues of $197 million in 2005, from 15 airports in five countries. These include an enviable list of exotic locations, from the Dominican Republic, Santiago, Chile, Jamaica and the Turks and Caicos Islands. Every airport is unique and every new contract presents its own complex challenges. Since 2005, Vancouver Airport Services has welcomed two new airports in Cyprus to its network and is about to start operations at the airport in Nassau.

About seven years ago, YVRAS came up against its biggest international opportunity since its founding in 1994 – a chance to participate in a major airport concession in the Dominican Republic involving the construction, expansion, renovation and operation of four existing airports and two new ones, totaling USD 286 million. The evolution of this deal, like that of the air travel industry since 9/11, has been turbulent and risky, but ultimately rewarding.

Vision takes flight

YVRAS was founded on the idea that the skills and techniques that made the Vancouver International Airport an award winner could be translated internationally. "The original company president, Frank O'Neill, saw the emergence of the trend to privatize international airports and had a strong vision to operate internationally," says Neville Weir, Vice-President Finance and Chief Financial Officer of YVRAS.

Within a few years, many Latin American countries started to privatize their airport operations, and YVRAS and its local partners won a 21-year concession (still in effect) from the government of Chile to operate the Santiago airport. A prolonged recession in Chile, a weak peso and the aftermath of 9/11 led the airport to the brink of default. Luckily, economic conditions improved and the concession secured financing to put it on track again. Despite the difficulties, Santiago represented a breakthrough in airport concessions and financing and led the way for many more deals in the region.

"The key challenge," says Weir, "is to get the right local partners and consortium

together that you think can win the contract. This consortium is usually a blend of airport construction, management and operating companies, and financial institutions that can raise the vast amount of capital needed to develop and run an airport."

With experience in Santiago and Bermuda, YVRAS was approached in 1998 by one of the largest companies in Dominican Republic to join a consortium of local construction, engineering and investment companies with a mandate to develop the Dominican Republic's airport infrastructure. Together they formed Aeropuertos Dominicanos Siglo XXI S.A., better known as Aerodom.

"The Dominican Republic airport project has been described as one of the best concessions in the industry, not just because of the size of the project but mainly because its traffic is a blend of business, tourist and expatriate travellers, which means the airports can better tolerate tourist traffic swings and changes in economic conditions," says Weir.

Before YVRAS takes on a bid or joins a consortium, it does a rigorous analysis of potential returns based on assessments of country and economic risks, project partners and air traffic patterns, among other factors.

Financing is pivotal to the success of an airport bid. "Competition has shifted from operating-level consortiums taking the lead to financial institutions," notes Weir. Some of YVRAS' major competitors are now infrastructure funds and financial institutions in Europe and abroad, working mainly with various European airports.

By 2003, the Dominican Republic was facing a banking collapse with a 300 per cent devaluation of its currency. Four years into the airport project, the bond financing and political risk insurance had dried up.

Give up or go on?

YVRAS and its Aerodom partners turned to the World Bank's International Finance Corporation (IFC), which had previously provided financing for the YVRAS Jamaica project. Luckily, IFC could see beyond the Dominican Republic's financial difficulties to the positive commercial aspects of the deal, its strong business partners and the rebound in tourism and other air traffic to the Dominican Republic.

But, the required financing was still high – a USD 100 million non-recourse loan. "I suggested that IFC bring EDC into the project. We had worked with EDC on other deals where they had provided bonding, and EDC had kept on tracking our progress," says Weir. "EDC is quite creative on how they can help you."

"Since YVRAS landed the Santiago job, EDC has met periodically with them to discuss their projects and see whether we could help them grow further," says Blair Wilson, Senior Account Manager at EDC's Vancouver Office. With the Dominican Republic deal still in waiting, here was the right juncture.

"IFC structured the loan but didn't want to take on all the risk. There was a need for a second lender to help underwrite a large piece of the debt," adds EDC's Doug Macaulay, Project Finance Director. "We were pleased to have been asked by YVRAS to join the deal at an early enough stage to contribute to the due diligence and structuring efforts alongside IFC."

EDC was able to take on a USD 40 million loan after its own assessment of the project sponsors, country risk, regulatory risks, traffic projections and environmental issues. Like IFC, EDC was impressed with the consortium management and the future of the Dominican Republic as both a tourist and commercial destination.

EDC also reviewed the deal's benefits for Canada. Canadians are the second largest tourist group and second largest investors in the region, from mining to hotel development. New and improved airports on the island are the gateway to further tourism and business investment. In addition, the project benefits Canadian revenues and job growth, including Canadian sub-contractors and consultants who YVRAS periodically hires to do airport design work, traffic forecasting and related jobs.

This year, IFC and EDC approved an additional USD 25 million loan to Aerodom, with EDC providing USD 10 million, to increase the scope of Aerodom's work and cover additional supply costs.

"EDC doesn't shy away from countries that some other financing institutions won't look at. It has the appetite for risk, and works quickly towards a solution," says Weir.

To date, the Dominican Republic project is progressing well. Of the six airports, the key destinations of Santo Domingo and Puerto Plata are in operation and are expected to account for more than 90 per cent of the traffic revenues accruing to Aerodom. This is also one of the most successful infrastructure projects in the country.

A successful landing

YVRAS has gained invaluable skills in working with different cultures and languages. The company also puts its own stamp or brand on each of its airports, making sure they are safe, friendly, clean, efficient and profitable, with a local sense of place. It's all part of the YVRAS philosophy of how a great airport should look and operate to accommodate today's global airport traffic. ■

YVRAS GAINS FOOTHOLD IN EU WITH CYPRUS DEAL

YVRAS, as a member of Hermes Airports Limited, assumed operations this year of two airports in Cyprus, including Larnaca, used as a stopover for Canadian citizens fleeing the conflict in Lebanon. This is YVRAS' first operation beyond the Americas: "Managing airports in the European Union represents a major milestone for the company," says YVRAS President George Casey.

The Hermes consortium had mandated four international banks to arrange a Euro 612 million financing package to make this project possible. When the lead arrangers had to syndicate the term loan and equity bridge loan portions of the financing, YVRAS recommended EDC as one of many possible lenders. "We were one of 15 banks invited to participate (at slightly under Euro 30 million each) in the financing out of about 40 that expressed interest, given the transaction's strong fundamentals and structure," says EDC's Macaulay. This is EDC's third airport project financing, and it joins a growing portfolio of airport assets with a geographic and traffic-mix diversity that positions EDC to serve future Canadian investors and exporters in this sector.

www.yvras.com

EDC Equity Program & PRIVEQ Capital Funds

Expansion Capital for Small Business

BY ALEX REEVES

For small, privately owned companies facing rapid growth opportunities, raising expansion funds on the open market is not an option.

They can't issue shares to the public and they can't go to their local bank, which is not in the business of investing in fledgling companies and will not lend beyond a company's existing receivables. Fortunately, these companies can look to the private equity market as a source of much-needed expansion capital.

Private equity firms range from small- to mid-market operations founded by experienced investment professionals targeting six-figure individual investments, to the private investment divisions of major chartered banks managing $2 billion in private equity commitments. All establish a capital pool by investing their own funds and securing the commitment of limited partners such as financial institutions, pension plans or individual investors. Once their fundraising is completed through a "capital call," the private equity firm begins making investments until the fund is fully invested, a process which can span several years. Funds seek companies with a high growth potential, but needing outside help to make that growth happen.

Recognizing that for most Canadian companies, growth comes through international trade, EDC makes direct and indirect investments that help companies grow quickly and compete at a new level through its Equity Program. "We started in 1998 after the *Export Development Act* was amended to allow EDC to make equity investments. Since then, we've taken positions in several companies and projects, and have also partnered with professionally managed funds that invest in a portfolio of entrepreneurial Canadian companies," explains Jennifer Brooy, Vice-President of Equity at EDC. "It's a logical extension of our financing capacity."

"There are many entry points for private equity in a company's evolution," she adds. "But EDC primarily looks for deals where small- to medium-sized companies are in growth or expansion phases. We like to partner with private equity funds that share this focus."

EDC added PRIVEQ Capital Funds to its stable of private equity investments in 2006. PRIVEQ is a Toronto-based firm founded in 1994 by Bradley Ashley, whose broad experience includes lawyer, investment banker and manufacturing consultant. EDC participated in its third fund raising (PRIVEQ III), which closed in April 2006 with an investment pool of $57 million. PRIVEQ focuses its efforts on businesses located less than five hours combined travel time from Toronto.

"We chose to invest in PRIVEQ because we've known Bradley Ashley for some time. We know his team's hands-on approach to coaching companies through accelerated expansion and we know his track record of generating consistent returns for his investors. But also, PRIVEQ's investment focus is a great fit for us. We're trying to establish good industry and regional coverage throughout our Equity Program. We've already invested in a number of small high-tech and clean technology companies, as well as a mix of funds and we're looking to do more in other sectors."

PRIVEQ focuses on $3–$7 million investments in niche manufacturing and services sectors, controlling an overall private equity portfolio worth $85 million. From management buyouts to acquisitions, it combines a fast-track investment approach with value-added post-investment assistance to help profitable companies achieve growth, and to manage it.

Handling a fast expansion

"Often, businesses that grow too quickly can blow up. They need a lot of help handling their expansion: from reorganizing plant layouts to amending business strategies – things that can be hard to do on your own when you're caught up in a rush of orders," explains Ashley. "We can help them deal with those pressing issues by hiring lean manufacturing consultants or assembling an experienced Board of Directors that will vet strategy, generate business leads and add management depth with seasoned industry players. We

Photo: © Royalty-Free/Corbis

Hallcon helps remove the little stresses of air travel by grooming commercial airliner cabins.

Photo: courtesy of Vertigo

Vertigo projects include a wide array of transportation terminals that offer ideal static and scrolling advertising venues given the high pedestrian traffic.

help our partner companies perform at a higher level. Our investors gain generous returns and we get the thrill of seeing a company's expansion succeed."

Investing in growth

PRIVEQ's family of investments is varied: specialists in television broadcast services, photo-finish and race timing for the horse racing industry; an above-ground pool manufacturer; a collection agency; a manufacturer of rail accessories and maintenance equipment; and a manufacturer of illuminated and motion display signage. But they're all related by their competitive advantages and growth prospects and occupy industry segments that are not easily penetrated by new competitors. PRIVEQ's appeal to the companies that were seeking private equity financing was the same: the support PRIVEQ provides post-investment.

"Five years ago, the founder of our company was selling the business and the management team wanted to acquire it. We interviewed several groups through an investment banker and found PRIVEQ to be the best fit, based on its background and experience," says Tony Plut, President of Hallcon, an outsourced service provider for the mass-transit and rail sector, which is now part of the PRIVEQ portfolio. "They're a significant financial investor, but also very hands-on from a strategic perspective. Strategic development is something we really have to spend a lot of time on and they're fully versed in that. We like it that they really understand our business and the issues we face. They're effectively an extension of the management team."

In July 2006, the PRIVEQ III Limited Partnership closed its first investment: Vertigo Group Inc. Vertigo designs, engineers and builds advanced, low-power illuminated displays and street furniture for outdoor and retail advertising, and supplies its technology to top media companies such as Pattison, Lamar Media Corp., Clear Channel and Zoom. Vertigo President, Ralph Idems, is a veteran of several private equity financings and was quick to recognize that Priveq had something different to offer his company.

Knowing your marketplace

"We received five term sheets and felt comfortable with PRIVEQ right away. They have a lot of experience with companies of our size and they asked the right questions, which showed they could appreciate the challenges ahead of us. Big equity and senior lenders were eager to do a deal with us too, but we felt like we were going to be just another transaction to them," he explains. "For a company with Vertigo's potential, it's still hard to raise capital because many potential investors look only at financial ratios, without understanding the "space" you occupy. PRIVEQ knows where we fit in the marketplace, understands small-scale manufacturing, the challenges to growing and the expertise needed to overcome those challenges – and finally, has access to many helpful sources of expertise."

That expertise could now include EDC's unique trade finance and risk management solutions, and its extensive networks in export markets. As Hallcon's Plut says, "One thing that PRIVEQ has always done for us, is bring partners to the table when we've needed some creative financing. They recognize they can't do everything themselves and are willing to explore alternatives, so we see the addition of EDC to the fund as another big plus that PRIVEQ has been able to attract."

"Going to private equity should be about more than finding money," concludes Ashley. "Entrepreneurs should look for the post-transaction value-add, in terms of helping expedite the growth of their business. We pride ourselves on that, and any small business owner who thinks they could use our kind of finance should give us a call to find out what we're about." ■

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Bound for Success

Canada's Aerospace Industry

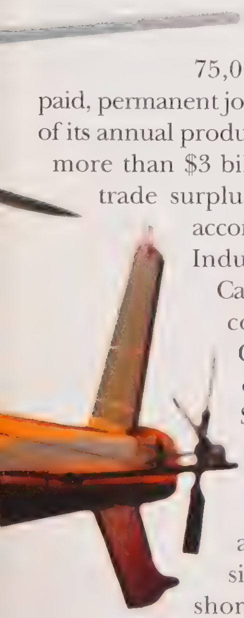
BY DENNIS AND SANDI JONES

◀ Bell Helicopter, as well as Bombardier, Pratt & Whitney and CAE, are world leaders supported by a sophisticated infrastructure of second- and third-tier manufacturers. Pictured here: Bell 429 Light twin engine.

▶ Standard Aero CF34 technicians complete assembly of a CF34-3 engine.

Photo: courtesy – Standar

Canada's aerospace industry is extremely diverse. It designs and manufactures regional passenger jets and turboprops, business jets, helicopters, jet engines, avionics, advanced composites and a multitude of other products and services that range from flight training to maintenance, repair and overhaul. The industry employs 75,000 people in highly paid, permanent jobs, exports 85 per cent of its annual production and contributes more than $3 billion to the country's trade surplus every year. In fact, according to the Aerospace Industries Association of Canada (AIAC), the only countries that outrank Canada in aerospace output are the United States, the United Kingdom and France.



This is a significant achievement for a country of Canada's size, and the industry's short- and mid-term outlook remains promising. However, there are longer-term influences at work that are not quite so positive. Among these are intense foreign competition, coupled with lagging productivity caused by sub-par levels of investment in R&D and infrastructure. Furthermore, according to AIAC figures, Canada's public investment in aerospace has declined rapidly since the late 1990s. At the same time, many of the other major aerospace powers have been *increasing* their support for their national industries.

Such developments have unsettling implications for the sector's future. Aerospace is a highly globalized industry, characterized by large development programs that draw investment support from clusters of countries. If the Canadian sector fails to maintain its technological and financial capacity, Canada could lose many of the benefits that flow from participation in these programs.

A different drummer

Canada resembles other aerospace powers in that the industry is comprised of Tier 1 companies (large manufacturers such as Bombardier), Tier 2 companies (builders that supply major subsystems, such as engines, to the large manufacturers) and Tier 3 companies (firms that provide smaller subsystems and engineered components to the other tiers). In other ways, however, Canada is unusual: unlike other nations with significant aerospace industries, Canada has only a small domestic military aviation subsector, and has consequently put most of its efforts into civil aviation. In addition, much of the sector's growth has resulted from supplying the needs of foreign aerospace firms, especially in the United States, and its geographical proximity to the American aerospace market – the world's biggest – also places the sector in a unique position.

Canada is exceptional in another way, too, as is pointed out by Michel Legault, Senior Director of Business Development at Bell Helicopter Textron Canada. "You can design, build and support a complete aircraft using only the supply base that exists in and around Montreal," he says. "There's no other city on earth that can do that. Not even Toulouse or Seattle can do it, even though they're the two urban centres in the world that are bigger in aerospace than Montreal."

Paul Soubry, President of Standard Aero, a Winnipeg company that provides aero-engine maintenance, repair and overhaul (MRO) services to customers worldwide, has no trouble identifying the sector's major capabilities. "They're clearly in design and manufacture," he observes. "Our primary players – Bombardier, Bell Helicopter, Pratt & Whitney and CAE – are world leaders, and they're supported by a sophisticated infrastructure of second-tier and third-tier manufacturers, as well as a tremendous MRO infrastructure."

Diversity is another key Canadian advantage, says Joar Gronlund, Vice-President for Business Development at Field Aviation, which specializes in repairing, modifying and refinishing regional aircraft. "Our companies have a multitude of capabilities, which means they're very good at supporting our domestic first-tier manufacturers. It also means that they're capable of working internationally in their own right. Canada is strong, for example, in creating special-applications aircraft, such as maritime patrol planes, to fill specific niche markets around the world."

The industry also has a large service component. CAE, which is the world's

CANADA'S COMPETITIVE ADVANTAGES
With a small military aerospace subsector, Canada concentrates on civil aviation where it excels in design and manufacture.
Canada's primary manufacturers are world leaders supported by a sophisticated infrastructure of second- and third-tier companies.
The sector is diverse and can fill niche markets and react to general market shifts.
The industry does well on services such as aircrew training, maintenance, repair and overhaul.
The sector takes smart risks to get new applications to the market ahead of its competitors.

biggest manufacturer of flight simulators, has become a world leader in aviation training, with 20 training centres around the globe. Another fast-growing subsector comprises MRO services, with several companies across Canada engaged in this kind of work.

Finally, according to Ron Kane, AIAC's Vice-President for Defence and Space, the industry has always maintained a tight focus on its market, and has historically been willing to take well-calculated risks. "We've read the market correctly," Kane notes, "and we've kept to areas where we could become major global players. Rather than try to do everything, we've concentrated on things we do very well, and so have been able to bring new applications to market more quickly than our competitors. As a result, Canada has a large world market share in several areas."

EDC support is one reason for the sector's viability, says Soubry. "Standard Aero is a maintenance company, and we've found historically that these services don't fit well into the definitions used by government export support programs. EDC, however, has been creative in changing and advancing their financial products to deal with this problem, so we take advantage of EDC credit insurance when we're dealing with our foreign customers."

Joar Gronlund concurs. "EDC is playing an integral part in our Swedish Coast Guard patrol aircraft program

"All the major aircraft producers in the world seek government support, so this isn't unique to the Canadian industry. It's simply something that needs to be done because of the high cost of the items involved. Private lenders are certainly a significant part of it, but they may not have the risk capacity that EDC was created to deliver. In those cases, with our risk capacity, we complement the role of the private sector. There are risks, naturally, but we provision for them."

More specifically, notes Patrice Guindon of EDC's Transportation Team, "Insurance of receivables that Canadian companies generate through foreign sales is a significant part of the total aerospace business at EDC. Our contract insurance and bonding program helps Canadian exporters be competitive, and can be a major factor in winning a contract. We also provide buyer financing with short- and long-repayment terms to help Canadian companies

Aerospace companies have contributed $29 billion to Canada's trade surplus during the past decade, and this proven ability to make money should be much better known to Canadians.

First flights

These capabilities have recently brought Canada some major successes. Participation in the International Joint Strike Fighter program is one example; 58 Canadian firms are now part of it, with contracts totalling about $300 million, and these revenues could climb to several billions of dollars as the program matures. On the civilian side, numerous Canadian companies are providing components for the new Airbus A-380. In helicopters, Bell has just been contracted to supply 500 aircraft to the U.S. Army. And Field Aviation has won an international competition to provide three maritime patrol aircraft for the Swedish Coast Guard.

by providing bank guarantees. Without EDC to take those guarantees off our credit line, we'd have great difficulty in doing business." Michel Legault, Senior Director of Business Development at Bell Helicopter holds a similar view: "Over the years," he notes, "EDC has been a very important tool in our tool chest, especially when we're talking to an important customer about a large order or a complex program."

As for EDC, aerospace has long been among its most important customers; necessarily so, given the capital-intensive nature of the industry. As Norm Low, head of EDC's Transportation Team points out,

with their day-to-day cash flow. The sector, in other words, uses a very broad range of EDC services."

Given the sector's frequent use of ECA financing on a global basis, EDC's support of the aerospace sector is significant. At $6.7 billion as at June 30, 2006, EDC's aerospace exposure made up 28 per cent of EDC's total loan portfolio, highlighting EDC's recognition of the sector's importance to global trade, and concurring support. Eighty-five per cent of EDC financing has traditionally gone to foreign airlines, enabling them to purchase Canadian-made aircraft, engines and parts.

Shandong CRJ700

Photo: courtesy of Bombardier Aerospace

But the industry can't rest on its laurels. As Michael McAdoo, Vice-President of Strategy and Business Development for Bombardier Aerospace observes, even some of the formerly mighty have fallen. "Several countries have lost their aircraft design and integration capability over the years," he points out. "Germany lost Fairchild Dornier, Holland lost Fokker, and Sweden's Saab AB has gotten out of commercial aircraft."

Capital and competition

Aircraft and their major components are very expensive to design, build and maintain. However, it's not generally understood by the public, and sometimes not by governments or journalists, that Canada's occasionally significant public investments in aerospace – which the press has often reported with unease and even disapproval – have proven their long-term value and have, historically speaking, *always* paid off.

Such misperceptions indicate that the aerospace sector hasn't done enough to inform Canadians of the payback from these investments: that while billions of up-front capital may be required to get a big aerospace initiative underway, aircraft and their major components have service lives of up to 40 years, more than enough time to repay the public's investment and turn a comfortable profit as well. That's how aerospace companies have contributed $29 billion to Canada's trade surplus during the past decade, and this proven ability to make money should be much better known to Canadians.

Financing R&D is another major problem. "The amount of R&D that the Canadian aerospace industry is able to fund," says Gronlund, "is minuscule compared with that of many other countries. We're not doing a very good job of supporting the industry in what is a very competitive R&D environment, and that's making it harder for us to maintain our technological edge. Particularly for small and medium companies, finding development funding can be very tough."

Productivity pressures

Productivity is a further issue. "There was plenty of work to be had during the 1990s," observes Kane, "and we didn't invest a lot in new manufacturing equipment and capital infrastructure to increase productivity. Then, in the post-2001 slump, revenues were down and so, again, was capital investment. As a result, we're feeling pressure now to modernize plants and equipment, and that's happening at the same time our rising dollar is squeezing company profits. It's making things difficult, but we have to make those investments soon or we'll start losing our ability to compete."

The industry also has a structural problem, says Bombardier's McAdoo. "Bombardier, Bell Helicopter and Pratt & Whitney are examples of Tier 1 integrators. Then we have the Tier 2 suppliers, which provide the Tier 1 companies with complete systems to attach to their aircraft. Finally, there are the Tier 3

DOMESTIC DIFFICULTIES

Not enough investment in equipment and infrastructure – productivity hasn't grown as it should.

Canada's public R&D support for the sector has been shrinking.

Other export credit agencies are assisting aerospace sectors at historically high levels, increasing pressure on both EDC and other Canadian government financing programs.

Canada has few mid-level companies, so large manufacturers must buy foreign systems.

The false perception that government support for the aerospace sector is a poor investment.

BY THE NUMBERS: CANADIAN AEROSPACE IN 2005
Total annual revenues (domestic plus export): $21.7 billion
Total annual export revenues: $18.3 billion or 84.3% of total production, comprised of: ▸ $13.7 billion to the U.S. ▸ $2.6 billion to Europe ▸ $0.7 billion to Asia ▸ $1.3 billion to the rest of the world
Annual trade surplus: $3.4 billion; aerospace is the only Canadian advanced-technology sector with a consistent trade surplus
Direct contribution to GDP: 1.85%
Number of companies: 400 firms with primary business lines in aerospace
Employment: 75,000 people, including 12,000 scientists and engineers and 20,000 technicians and technologists
Annual R&D investment: $1.1 billion; of the top 10 R&D spenders in Canada, three are aerospace firms
In 2005, EDC provided the aerospace sector with $2.2 billion in Financing and Contract Insurance and Bonding support and $930 million in Credit Insurance for a total of $3.156 billion. This support represents 17% of the industry's $18.3 billion in export revenues.

companies, which make parts and sell them to both Tier 1 and Tier 2. It's Tier 2 where we, as a country, need more development. We don't have enough companies at this middle level, so often, we have to go to U.S. or European suppliers for the systems we need."

Export financing is another area of concern. Airlines are suffering from profit squeezes, and need financial support to buy new aircraft because they can no longer purchase them outright. At the same time, private lending for aerospace has diminished, which has required governments to step into this lending gap. EDC has been very active here; it has always supported aerospace exporters, and its aerospace portfolio has always been in the black. However, other countries' export credit agencies are assisting their aerospace sectors at historically high levels, and this is increasing the pressures both on EDC and on other Canadian government financing programs.

Jeff Rochon, Senior Industry Development Officer for Aerospace at Industry Canada's Aerospace, Defence and Marine Branch neatly sums up the situation. "Our firms need to invest in innovation, infrastructure and new equipment so they can enhance their productivity, deal with the pressures of competition and expand their global presence. Complacency is not an option."

Plumper profits

Business prospects, however, remain good. According to the Conference Board of Canada's June 2006 forecast for the industry, the next four years will see rising profits that will result in part from increasing Indian and Chinese demand. These profits are expected to weigh in at $802 million for 2006, more than doubling the $398 million generated in 2005.

Bombardier is also expecting major growth in China and India, and expects China to account for about 15 per cent of worldwide aircraft deliveries during the next 20 years. American and European markets are still growing, and the United States will remain Canada's largest aerospace customer for the next two decades. But Bombardier sees potential elsewhere in the world. "The United States has always been a key area for us," says McAdoo, "and that won't change. But we're also looking elsewhere, and as we expand into other markets we foresee that EDC will continue to be a financial partner for us, just as it's always been."

The regional-aircraft market represents only one set of possibilities. "In the area of large civil transports," notes Rochon, "Airbus and Boeing are producing new designs at an unprecedented rate. Opportunities abound for participating on platforms like the Airbus A-350 and the Boeing 787 and 747-8. And replacements for the Airbus 320 and Boeing 737 families are expected to materialize soon."

The re-equipping of the Canadian Forces opens up further potential. As Paul Soubry observes, "There have already been several government announcements, but there's still a lot of work to be done, and our industry is intending to be part of the process of selecting the

PROSPECTS FOR GROWTH
Major growth is expected in China and India, with China representing about 15 per cent of global aircraft deliveries for the next 20 years.
U.S. and European markets are growing, the U.S. will remain Canada's largest aerospace customer for two decades.
Airbus and Boeing are producing designs at an unprecedented rate, resulting in many openings for Canadian participation.
A retooling of the Canadian Forces could expand the domestic market.
More aircraft are operational longer, increasing services for maintenance, repair and overhaul.
Expanding use of composite materials will bring changes in aircraft design and fabrication – Canadian expertise in composites will help the sector capitalize on this technological evolution.

Photo: courtesy of Field Aviation

Field Aviaton has been repairing, modifying and refinishing regional aircraft for more than 55 years.

required capabilities and sources. We also intend to be integral to the life cycle support of the equipment. The Hercules military aircraft that are flying in Canada today, for example, were designed in the 1950s, and once-in-a-generation purchases like that are unique opportunities for the Canadian government to enhance the capabilities of Canada's aerospace industry."

Fixed-wing aircraft aren't the only platforms in demand. One promising area for Bell Helicopter, and potentially for Tier 2 and Tier 3 companies with helicopter expertise, is the oil industry. As crude prices rise, oil companies go offshore to find new production and build new rigs, and for that kind of work, only helicopters will do. Public safety and disaster relief are also applications that demand helicopters; in devastated areas such as flooded cities, they're often the only machines that can reach people in need.

THE COMPETITIVE ENVIRONMENT

- Competitive threats from aerospace powers: Brazil, France, the U.S., Germany, the U.K.
- European governments are out-investing Canada in R&D by a wide margin.
- The U.S. aerospace industry benefits from defence R&D, which Canada does not enjoy.
- Lower cost India, China, Japan, Russia, Romania and Poland are emerging as competition.
- Some lower-cost countries will eventually carry out high-level design and manufacturing, which could erode Canada's competitiveness.

From composites to life cycles

Aircraft used to be made of metal. However, the expanding use of composite materials – based on ceramics, carbon, polymers and other substances – will bring about fundamental changes in aircraft design and construction. Composites are lighter, stronger and need less maintenance than traditional materials, and the day of the all-composite aircraft is coming. Already, in the new Boeing 787 airliner, about half the airframe is made of composites instead of metal. Canada, fortunately, has considerable expertise in this technology, so the country is well positioned to produce the next generation of aerospace materials and capture the markets that will use them.

Maintenance, repair and overhaul (MRO) is likely to be another growing market. As more aircraft remain operational for longer periods, the demand for MRO services will inevitably expand. Many Canadian companies have developed MRO expertise by servicing Canadian Forces aircraft, and can now take that capability into global markets. There's also the space sector, with potential business spanning remote sensing, Earth observation and surveillance, as well as satellite-based wireless and broadband communications.

Participating in such new programs is crucial to the sector's future. The long life cycle of aircraft and aerospace systems means that companies must become involved in these projects at the beginning; if they don't, they could be shut out of participation for as many as 20 years. On the positive side, once a firm is engaged in a program, it will usually continue to participate not only for the project's duration but also for its aftermarket. That doubled involvement can provide a revenue stream that will last for decades.

While it's clear where the Tier 1 and even Tier 2 companies fit into the export side of the industry, what about the smaller players, the Tier 3 manufacturers of parts and components? "In most cases," says Kane, "small companies won't be selling directly into the export market, or even to the large equipment manufacturers like Airbus and Boeing. Instead, they need to find out which Tier 2 firms are in the supply chain for those large companies, and market their capabilities to those second-tier businesses. To do that, these smaller companies will need considerable assistance in discovering who they should be talking to. That suggests a role for Canadian OEMs, who could help integrate the capabilities of small Canadian companies into their own supply chains, and then

Photo: © Claro Cortes IV/Reuters

Focusing on the higher value-added segments of the supply chain will become crucial in the coming years.

take those supply chains to the global markets."

Watching the skies

Canada faces some stiff competition for market share. In regional jets, it comes from Brazil; in turboprop commuter aircraft, from France and Italy; in landing gear, from the United States, Germany, France and the United Kingdom; in civilian helicopters, from France, Germany and the United States. Emerging competitors include India, China, Mexico, Japan, Russia, Romania and Poland; these countries usually have cost structure advantages, so there will inevitably be some flow of Canadian market share in that direction. Later, too, some of these nations may begin to attract high-level aerospace work, possibly eroding some of Canada's edge in design and engineering.

Brazil's Embraer SA is a case in point, says Bombardier's McAdoo. "You have to remember that as recently as the early 1990s, all Embraer had was essentially some military contracts and one commercial turboprop design that they were building. But now they're sharing the regional aircraft market with us, and have entered the business aircraft market as well. Moreover, the Brazilian government has a solid commitment to make Embraer a world-class aerospace player in the same market segments that Bombardier occupies. That kind of support, which the Brazilian government applies through working-capital programs and sales financing programs, makes Embraer the biggest competitive challenge we face."

Brazil aside, it's the established aerospace nations that will press Canada hardest. European governments are investing heavily in R&D, and have established frameworks for developing the new technologies that will be critical to the future of their aerospace sectors. The U.S. industry still benefits heavily from defence R&D, so companies such as Boeing or Lockheed Martin can often obtain fully-funded R&D contracts from the military. The intellectual property created through such programs, with the development costs defrayed by the government, can then be applied to these companies' commercial projects.

Blueprints for the future

What should the sector be doing to withstand such competition? Focusing on the higher value-added segments of the value chain will be crucial, since there will be a trend in the coming years to move both new programs and certain aspects of existing programs to lower-cost manufacturing environments. In response, the industry needs to concentrate on what it does best – design, integration, advanced systems, innovative components, complete aircraft, and shed the remainder. That also implies a stronger commitment to R&D across the board, from both government and the sector itself.

Despite the challenges, there is optimism for the future. Field Aviation's Gronlund puts it briefly: "The industry is moving ahead. We see significant growth across the sector, from the prime manufacturers to the support and maintenance companies. The industry is on an upswing."

Maintaining Canada's global presence in aerospace will be crucial to sustaining that upswing. But through more and better cooperation between government and industry, and by capitalizing, literally and figuratively, on the industry's decades of experience as a major aerospace power, it can be done. The sky's the limit. ■

OUR EXPERTS: For this article, we consulted six experts with a broad range of experience in Canada's aerospace sector. They are:

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An Integrated Approach to Serving Resource Industries

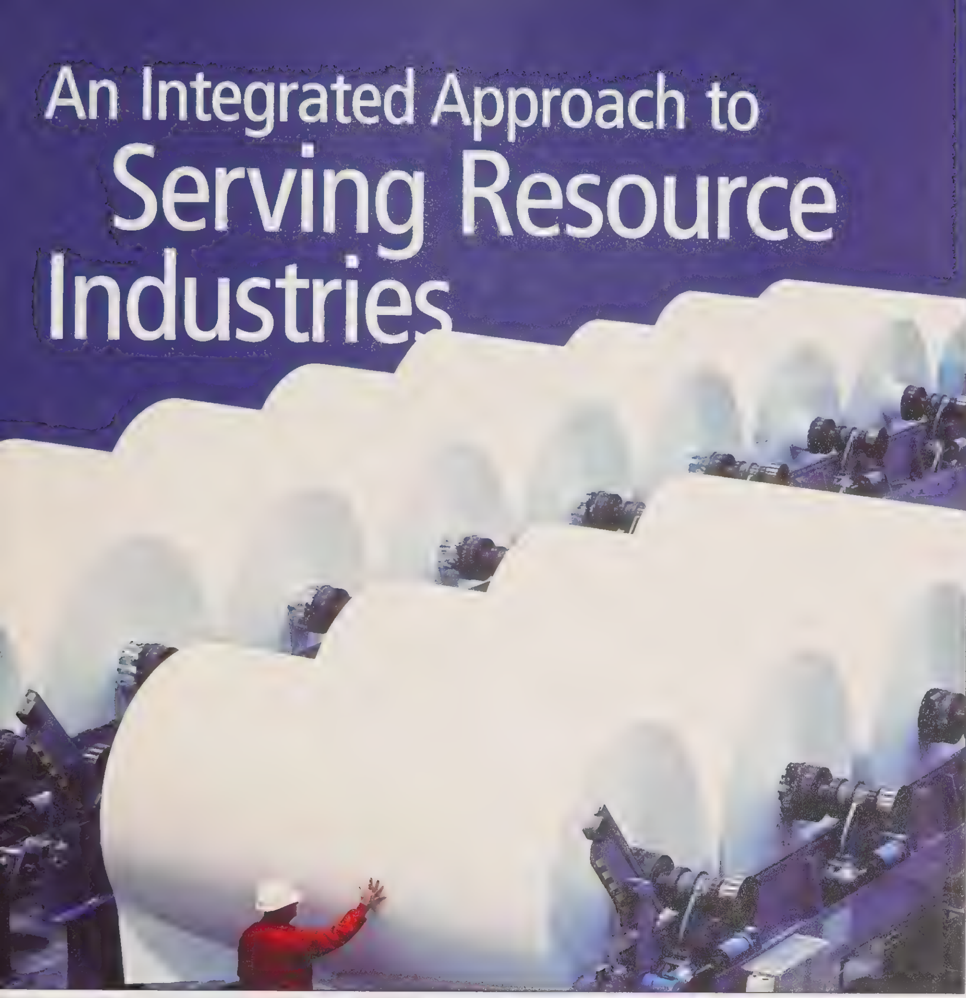

Photo: © Robert Essel NYC/Corbis

BY ANNA YOUNG

Many Canadian exporters in forestry and agriculture use a single EDC product – accounts receivable insurance – unaware that other EDC services and products can help them to expand, invest overseas and cover a wider variety of risks. That is changing as EDC prepares to address broader industry sectors and the inter-relationships of companies and sectors across global supply chains.

In 2005, EDC initiated a reorganization of its business structure to reflect the evolving needs of an integrated, globalized world in which companies' needs are increasingly sector-based. As a result, EDC is able to better understand the business needs and competitive pressures of Canadian companies; coordinate EDC's customer relationship activities to respond to those needs; improve relationship management with private-sector partners; and get closer to the Canadian exporters both in Canada and around the world.

The Resources Sector Team was the first of six launched under this new structure, each possessing experienced trade professionals who know the challenges of their sector and who can bring the full breadth of EDC's solutions to bear on the specific needs of these sectors. The Resources Team serves companies engaged in agriculture (crops, meat and fisheries) and in forestry (lumber, pulp and paper), including suppliers of machinery and equipment to these sectors. EDC is not new to resource companies however, and in 2005 it served approximately 25 per cent of all exporting companies in the sector, and facilitated $13.5 billion in export sales.

The Resources Team has been meeting with agriculture and forestry companies to learn about their challenges and opportunities and to define where EDC can add value to their exporting and investment activities. The current challenges within these sectors are many: overcapacity, declining commodity prices, the appreciating Canadian dollar, foreign exchange rates,rising energy costs and declining credit quality, strong global competition to name a few. And when these operating risks are high, private sector finance and insurance can be, understandably, more cautious.

EDC recognized a need to jump in and do more to help the resources sector manage the adjustment to tighter global competition, specifically the major financing gaps such as the availability of working capital to cover a wide variety of needs, from liquidity to regulatory bonding requirements and foreign exchange risks through capital to finance foreign investments.

EDC's recent work with long-time client Bowater illustrates how this new approach is taking effect. Headquartered in the United States, but with locations throughout Canada and South Korea, Bowater is a leading producer of coated and specialty papers and newsprint, among other things. An initial meeting between the new Resources Team and Bowater – an EDC insurance customer for 11 years – revealed a variety of new opportunities for EDC to help with Bowater's financing programs. As a result, a unique financing transaction was concluded whereby EDC provided USD 15 million in financing to Bowater Inc., in order to refinance existing debt, and USD 20 million to Canadian subsidiary Bowater Canada Forest Products, for a total of USD 35 million.

This new financing arrangement had to clear a few hurdles before taking effect. "To support a Canadian borrower, EDC must ensure that domestic regulations are met," notes Tom Sloan, Vice-President of EDC's Resources Team. "But the significant level of exports generated by Bowater Canada Forests Products made this support possible." Participation in the Canadian facility was supported by the fact that Bowater Canadian Forest Products exports more than 85 per cent of their products produced in Canada. In fact, these export sales totalled approximately USD 1.5 billion in 2005.

Dedicated account management is making us more effective at serving our customers with their insurance, financing and investment needs. We're helping them increase their working capital, even taking equity positions if needed. ■

For more information contact Tom Sloan, Vice-President, Resources (tsloan@edc.ca). Anna Young is a Sector Advisor on EDC's Resources Team.

Gearing Up in Brazil

BY DALE MORRIS

Brazil has emerged as an important economic power, representing a wide range of export and investment opportunities for Canadian companies.

Over the past four years, Brazil has matured impressively – opening its oil and gas sector, inviting foreign investment, and engaging in joint ventures with foreign companies to secure its place in the global supply chain.

Economic strides

Since Luiz Inacio Lula da Silva took over as President in 2003, economic indicators have strengthened impressively. Bond spreads have dropped dramatically and long-term foreign-currency credit ratings have been upgraded. There had been uncertainty about what the economic effects of the leftist rule would be, but his style has proved to be truly market-friendly.

"The challenges facing Brazil are those of a more mature economy and society now," says Stuart Bergman, EDC economist, "yet fiscal and government spending continue to impede progress toward reining in the country's lumbering public debt burden."

Bergman observes that "ongoing increases in social spending and social security may place further pressure on the 2007 fiscal target." More positively, domestic interest rates have been falling, reaching 13.75 per cent as of October, 2006.

Other key challenges to be addressed include the implications of pending judicial, labour and tax reforms. Lula has introduced a bankruptcy law designed to enhance prospects for financially troubled companies and their creditors, and a Public Private Partnership (PPP) law to encourage investment in infrastructure projects, an initiative that has yet to get off the ground.

Infrastructure

"Transportation infrastructure is a big issue in Brazil," Bergman says. "The legacy of underinvestment costs businesses operating in Brazil $1 billion per year in delays, with merchandise not getting to its destination ports on time. With the global supply chain now so critical to the survival of these companies, this cripples them competitively."

While the PPP was put in place in 2005 to solve this problem, it hasn't been sufficiently exploited, he says. It is not ready for implementation outside the states of São Paulo and Minas Gerais. "There's more potential there, which spells opportunity for Canadian companies."

Foreign direct investment is also being encouraged actively, with incentive programs such as one operated by BNDES (National Bank for Social and Economic Development) that offers long-term, local-currency (Real-denominated), financing for domestic or foreign companies installed in Brazil.

The seeds of Brazil's economic transformation date back even further than President Lula's election: the adoption of the Real Economic Plan in 1994 was a critical turning point.

The Plan introduced new fiscal discipline to all levels of government; it put new pressures of accountability on officers, limited payroll spending, made a commitment to fighting inflation, and initiated the privatization process. It has been tested several times and been upheld. Just recently, for example, the municipal government in São Paulo launched a lawsuit against the previous mayor over contracts entered into that violate the fiscal responsibility law.

October General election

A general election took place in October 2006. President Lula of the Partido dos Trabalhadores (PT) was re-elected, and his party maintained its minority position in the legislature. "Faced with a divided congress, policy stalemate as it relates to meaningful reform is the most likely scenario for Brazil over the next four years," says Dominique Bergevin, EDC's political risk analyst for South America. "Lula will continue the same juggling act, striving to ensure economic stability while advancing landmark social programs. Although policy continuity may not necessarily be the best solution to address Brazil's structural weaknesses, it has and will continue to allow the interests of the country's various stakeholders – from the business community to the poor segments of society – to be balanced."

"Brazil's economic fundamentals remain sound and momentum remains solid," says EDC's Stuart Bergman. "Fiscally, the picture is strong. The Brazilian government is running a primary surplus (excluding interest payments) of about four per cent of GDP. Both the level of external indebtedness and key debt ratios are improving and the government has taken steps to prepay and pre-finance existing debt obligations in the current, more favourable global interest rate environment. In addition, the export base is diversified: no single trade block makes up for more than 23 per cent of exports."

Brazil's GDP expanded 3.9 per cent year-over-year in the second quarter of 2006, compared to 2.8 per cent year-over-year in the first quarter. Growth of 3.3 to 3.5 per cent is expected in 2006. In addition, the Central Bank is expected to continue easing its monetary policy stance now that inflationary pressures are subsiding.

"There is a lot of poverty, but Brazil is a middle-income country with an average per capita income higher than China or India. It is one of the leading countries on ethanol, with a very advanced flex fuel car industry and leading technology in biofuel and biodiesel. To look at Brazil as a developing country is a mistake," says Ron Davidson, former Director of Latin America, the Caribbean, the Middle East and Africa, Commercial Relations Division, Department of Foreign Affairs and International Trade (DFAIT). "Brazil represents half the South American continent. Any company seek-

ing to access this market must be aware of Brazil. It is a massive country in size and population that is rapidly integrating into the global economy."

Bilateral trade between Canada and Brazil has grown significantly in recent years. At the end of 2005, Canadian direct investment in Brazil stood at roughly $8 billion. That figure is substantial, when compared with Canadian FDI in China ($1 billion), India ($204 million) and Russia ($188 million).

"But it is the intensity of reciprocal investment that distinguishes the Canada-Brazil relationship from Canadian commerce with most other emerging markets," Davidson says. "The history of significant Canadian investment in Brazil dates more than a century. Few Canadians are aware that today Brazil is the 10th largest destination of Canadian direct investment abroad." Brazil FDI in Canada stood at $3.7 billion in 2005 and will be significantly higher in 2006 now that the CVRD purchase of INCO has been completed.

"Accordingly, in addition to greater trade in goods and services and intensified science and technology partnerships, enhanced two-way investment is likely to be an important component of the draft Canada-Brazil Commerce Strategy, which the government is preparing in consultation with Canada's provinces and territories and the private sector," he says.

Demystifying the market

Like any emerging market, Brazil has its own idiosyncrasies. Canadian companies seeking to take advantage of opportunities in the country can learn much from the experience of some very well established Canadian companies in Brazil.

According to Claudio Escobar, EDC's Chief Representative and Regional Director in São Paulo, "Canadian industry has a very strong foot on the ground. Companies such as Brascan have been investing in Brazil for more than 100 years. In July 1899, the São Paulo Tramway, Light and Power Company Limited was incorporated. It was the first company of the Brascan Brazil Group. In 1967 the electricity business unit in São Paulo was transferred to the State, but Brascan has continued to expand its Brazil operations in real estate, financial and business services and power generation operations. Many other Canadian companies, such as Alcan, Nortel, and CAE, have been at the forefront of Brazil infrastructure and technology development.

BRAZIL AT A GLANCE

Population: 181 million

Currency: Brazilian Real

Nominal GDP (2005): USD 796 billion

Inflation (2006): 3.5%

Merchandise imports from Canada (2005): $1 billion

Largest merchandise trading partners: U.S., Argentina

Main imports: machinery and equipment (23%), chemicals (17%)

Canadian FDI in Brazil: $8 billion

As a % of Total Canadian FDI: 1.7 (10th overall)

Escobar advises that there are certain challenges that businesses entering Brazil should be aware of and plan for. "They can only be learned by on-the ground experience – starting a business, repatriation of funds, legal and taxation systems, complexity of regulations – all will be better understood by discussing with fellow entrepreneurs."

Business and bureaucracy

"Crime, as in most emerging countries, can be a problem in Brazil and personal security is a concern," says Eduardo Klurfan, Chairman of the Brazil-Canada Chamber of Commerce (BCCC) in Toronto, and Vice President, Global Transaction Banking, Trade Finance & Financial Institutions for Scotiabank in Toronto. "Be aware and take the necessary security precautions," he advises.

Legal prudence is critically important, too, he says "The fiscal system is highly complex. There are more than 57 different taxes in Brazil. Any company establishing an operation in Brazil should invest in a good legal and tax department to ensure they don't overpay taxes." Because of the tax burden, he advises Canadian businesses to complete a thorough cost analysis when debating whether to export or produce locally in Brazil.

Brazilian cities vary significantly in the ease of doing business. Varying state- and municipal-level regulatory requirements, as well as differences in the implementation of national-level regulations, can either enhance or constrain business activity. A report published in July 2006 by the World Bank covering business regulations – starting a business, registering property, obtaining credit, paying taxes, and enforcing a contract – across 13 cities mentions that:

- Complying with business regulations is easiest in Brasilia. The report also looks at how the Brazilian cities compare with other cities globally, providing another

Photo: © Paulo Whitaker/Reuters

▲ Brazil's Itaipu Dam: This massive power plant and others like it across Brazil, face a heavy challenge in meeting the energy demands of the continent's biggest country.

perspective on the time it takes to start a business. São Paulo ranks 149 out of 155 major cities, whereas Belo Horizonte, the Brazilian city with the fastest time to start a business, ranks 30th.

- When compared with a similar subnational study in Mexico, Brazilian cities perform better when it comes to the cost of registering property. But despite identical regulations across Brazil, there is a wide variation in the time it takes to transfer property.
- The tax burden is heavy in Brazil, both in terms of tax rates and administrative complexities: businesses in Rio de Janeiro have one of the highest tax burdens in the world.
- The city where it is easiest to enforce a contract is São Paulo, at 18 months.

The Husky experience

Canada's Husky Injection Moldings is one of the world's leading suppliers of injection molding equipment and services to the global plastics industry. Husky designs and manufactures a broad range of injection molding machines, hot runners, robots, molds and integrated systems for items such as soft drink and mineral water perform bottles, margarine containers, instrument and door panels, plastic closures for bottles and plastic cutlery.

Fabio Seabra is General Manager of Husky do Brasil Sistemas de Injecao Ltda, owned by Husky Injection Moldings Canada. He says commitment, local presence and quality have been important differentiators for Husky.

Seabra is also the current President of the Chamber of Commerce, Brasil-Canada, in São Paulo.

In 1992, Husky set up an office in Brazil with one salesperson and one technician. "Normally, a company would wait a few years to add a technician, but we wanted to have that support in place right away," Seabra says.

The company now has 30 service and sales staff, with spare parts service in place. They also repair molds and hot runners locally. "If your product is going to sell, you have to be committed to the country. Customers want to know, 'How are you going to support me? That's the first thing people ask.' When Brazil hit a difficult period a few years back, we didn't back out and leave," he says.

Husky's approach has garnered trust from its Brazilian clientele. "Though we sell machinery – a product – we first want to understand why they need it. Sometimes, we send a customer to a competitor or change their envisioned application and sell half the equipment they originally intended to buy. People here have been beaten up, taken advantage of. If they sincerely believe you're here to help them, they feel good and want to do business with you," he says.

Brazilian customers have become increasingly concerned with quality, Seabra says, as global competition has intensified and Chinese equipment manufacturers have "invaded" the country.

"Historically, Brazil has been protectionist. But now Brazilian companies are seeking the latest technologies. They want quality and performance, not aggravation."

Husky began local manufacturing of manifolds and hot runner systems in Brazil in December 2004. "We're seeing good results. We've doubled sales of our hotrunners annually since then."

EDC in Brazil has helped Husky foster sales in the country. "They've been instrumental in understanding and helping convince headquarters of the importance of doing business with specific companies in Brazil. In that way, they have supported our relationship-building," Seabra says. "And Brazil is an important window to other markets."

Preparation, presence and patience

Companies like Husky have been successful in Brazil because they've done their homework before entering the market, says EDC Regional Manager Fernanda Custodio. She advises other Canadian enterprises to talk to other companies there, investigate the competition, visit the market often, and attend fairs, exhibitions, conferences. "Meet as many people as possible. Connect with sectoral-based business associations. Access the Trade Commissioner Service," she says.

Being present in the country is critical, says Klurfan. "You can't do an annual visit and think you'll get business out of Brazil. You can't do business with Brazil over the Internet; you need to see and be seen."

Photo: Matthew Manor/Husky IMS Ltd.

Canadian companies such as Husky Injection Moldings have been successful in Brazil because they've done their homework.

He cautions businesspeople who don't speak Portuguese (Brazil's official language), to speak English instead, not Spanish. "Brazilians consider themselves distinct from other Latin Americans. They will accommodate those who don't know Portuguese. That said, they love people who show an interest in speaking their language, as a way of getting closer to them."

"For many Canadian companies, the best way to enter the Brazilian market is not directly, but rather as a supplier to engineering firms already present in the market," says Escobar. "Size counts in Brazil, which makes it harder for smaller entrants to break in. Larger companies command greater respect, and partnerships with Brazilian companies provide with better probability of success."

Often these affiliations can prove cost-saving, Klurfan adds. "Joint ventures allow Canadian companies to find supply-chain synergies with Brazilian companies, share know-how and equipment."

Time is of the essence in the Brazilian market. "Begin by developing friendships and relationships," Klurfan says, "then do business. In Brazil, there is lots of effort to know the person with whom you will do business on a personal basis first."

DFAIT's Ron Davidson concurs. "Take time to find the right partner, one you can live with for a long time. Establish rules so there are no surprises. Create a partnership agreement as a normal business practice. Establish what you would use as an arbitration process."

In 2005, EDC supported 219 Canadian companies active in Brazil, for a total business volume of $1 billion.

Many Canadian and foreign companies use the Brasil-Canada Chamber of Commerce Arbitration Centre, as a centre of reference, with its well-established dispute-resolution mechanisms, Davidson says. "It is not an easy market. More than 400 of the Fortune 500 companies are present. You will be competing with the world. Those that approach the market right and become successful are very successful."

Investment of a different kind

Apart from foreign direct investment prospects, there are financial investment opportunities that bear watching, according to Robert Forbes, Group Vice President of EDC's International Business Development Group. Forbes leads the company's business development activities in strategic markets around the world.

"The climate for financial investment continues to improve. We're hearing more and more interest from Canadian pension funds seeking to take advantage of Brazil's prosperity and the sophistication of its financial sector."

Case in point: as part of its strategy to diversify the portfolio through international expansion, in June 2006 the real estate portfolio of Ontario Teachers' Pension Plan, (managed by Cadillac Fairview) acquired a 46 per cent interest in Multiplan Empreendimentos Imobiliarios S/A, a private real estate entity headquartered in Rio de Janeiro.

"This represents a lot of promise for Canadian financial institutions and funds. They need to organize now to take advantage and access these fast-growth opportunities," Forbes says.

EDC's Brazil strategy

Brazil represents a strategic and a growth market for both Canadian exporters and investors and for EDC. Over the last 60 years EDC has played an important role in the evolving commercial relationships between Brazil and Canada. EDC's total business in Brazil from 2000 to 2005 was more than $7.0 billion.

EDC first established its presence in Brazil in July 2000, with the appointment of a permanent representative in São Paulo. It has since appointed another in Rio de Janeiro. In 2005, EDC supported 219 Canadian companies active in Brazil, with a total business volume of $1 billion. It holds $65 million in lines of credit with: Banco do Brasil, Bank Boston (today Itau) and Unibanco, mainly to support small to medium-sized enterprises (SMEs). Brazil has become the second largest priority market for EDC, after China.

EDC's approach in Brazil is sector-based. Its efforts are focused in: oil and gas; mining; power; information and communications technology; forestry; pulp and paper; environment; and infrastructure.

EDC's strategy, Escobar says, is to continue to match the vast trade compatibilities between Brazil and Canada. Sector diversification along with continued support for historically strong commercial relationships will be met by innovative financial mechanisms, promotion, support and implementation of Canadian investment. EDC is also active in furthering key relationships with private and public sector decision makers. All of these tactics are

Brazil's Oil & Gas Sector

Since the oil and gas monopoly in Brazil was broken in 1998 and the National Agency for Petroleum, Oil, Gas and Biofuels was established as an independent industry regulator, many of the world's main players have flocked to Brazil – Shell, Exxon, Chevron, and Canada's EnCana, among others, establishing themselves alongside Brazil's giant, Petrobras.

A small influx of exploration and production companies has occurred as well. With an increase in market competitiveness and regulatory reform, Brazil-based oil and gas companies are searching for new technologies to support: onshore exploration and production; heavy oil exploration; natural gas production; and pipeline construction and management. Equipment and services are equally in demand.

Petrobras' relationship with EDC began in 1995 with a $25 million line of credit. Since then, EDC has been a key support of Canadian industry's relationship with Petrobras and has helped the company to establish a Canadian procurement strategy. Ten to 15 Canadian companies are registered in Petrobras' procurement system and another 60 are actively bidding on business. Petrobras' purchase of equipment and services from Canada is estimated at more than $100 million annually.

Between 2007 and 2011, Petrobras plans to invest USD 87.1 billion, including USD 49.3 in E&P and USD 23 billion in downstream. Petrobras investment in the natural gas production chain, from exploration to distribution including new investments in LNG plants, will total USD 17.9 billion. In addition, the natural gas area should receive another USD 4.5 billion

contributing to increasing business volume in the Brazilian market.

Fernanda Custodio is EDC's representative in Rio de Janeiro, overseeing activity primarily in the oil and gas, mining and power sectors.

"I work with key Brazilian buyers and intermediaries, such as Petrobras, and with Canadian investors in Brazil to facilitate the purchase of Canadian goods and services and develop joint-venture partnerships," she says.

From his base in São Paulo, Claudio Escobar oversees business development throughout Brazil and in the Southern Cone countries. He says the nature of opportunities in Brazil has changed. "Though Brazil has traditionally been a destination for market-seeking and resource-seeking foreign investment, today there is a greater opportunity for efficiency-seeking investment oriented toward exports to third markets. Brazil can still be protective in some industries. It has a strong domestic manufacturing industry. In some cases, therefore, Canadian companies are viewed as competitors. And yet, they are key potential partners for joint ventures."

Photo: © Paulo Whitaker/Reuters

Brazil's Sao Tome ethanol distillery in the southern state of Parana. Brazil is the worl's largest producer and exporter of sugar and ethanol.

Renewable energy is a key strength of Canadian companies that is in high demand, Custodio and Escobar point out, and important opportunities are emerging in environment and infrastructure.

Custodio, Escobar and the broader EDC team offer a number of tools to assist Canadian companies at various stages of market entry. "Pre-financing can offer a competitive advantage to a Canadian company entering a competitive bid process," Custodio says.

EDC works with more than 300 financial institutions in Brazil's sophisticated banking sector – from the largest institutions that support large transactions to smaller banks that help finance SME business. ■

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from other companies operating in Brazil. The company plans to purchase some USD 6 billion worth of goods per year through its decentralized procurement structure.

Canadian expertise

Mr. Marcelino Guedes Gomes is Director of Pipelines & Terminals for Transpetro, the Petrobras subsidiary responsible for the group's transportation system (Offshore, and Pipelines & Terminals). Transpetro operates 52 oil tankers, 44 marine and onshore terminals, and oversees 10,000 km of pipeline for Petrobras holding companies.

"We have a special relationship with companies from Calgary and Edmonton because of their specialty in this area. Calgary is the pipeline capital of the world," Mr. Gomes says. "It is very important for us to have partnerships with Canadian companies. Pipeline integrity has become increasingly important for continents around the world. Canada has been investing in this area for some time."

Since 2004, Petrobras has been working in partnership with EnCana on a technology transfer project through which Petrobras is accessing EnCana's expertise in heavy oil.

"Our alliances with major players like Petrobras support our ongoing success into the future," says Julio Moreira, President of EnCana, in Brazil. "The sector is growing rapidly. There are more reserves, new discoveries, many basins – new areas for future development."

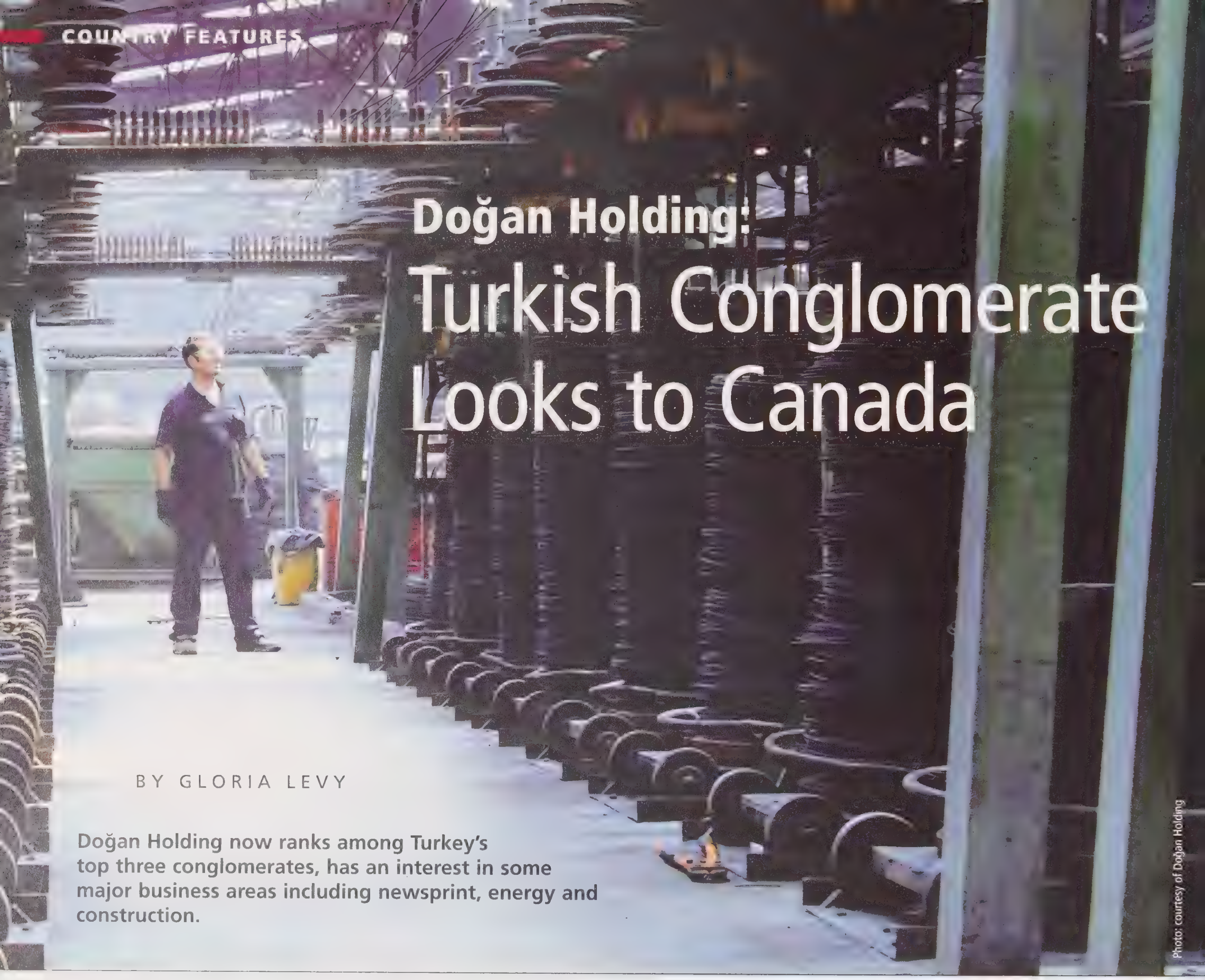
Much of the increased activity is in heavy oil discoveries and deep water offshore exploration, he says. EnCana had a major discovery of its own last year: it drilled four wells in the area known as the Chinook Field. Working with a U.S. partner, EnCana discovered a large field. It subsequently sold 50 per cent working interest to Norwegian company Norsk Hydro for USD 350 million.

There are a lot of opportunities for Canadian service companies in the onshore sector as well, Moreira says, given major growth in that subsector.

"With the oil and gas markets open, there will be new opportunities for Canadian companies in the next five to seven years," Gomes says. This is a special moment in the pipeline industry – the right moment for companies to look at Brazil and establish partnerships with Brazilian companies. And the International Pipeline Conference (IPC)is the right opportunity to meet those partners." IPC is held annually, alternating between Calgary and Rio de Janeiro. The 2007 event will take place in Rio.

Markets beyond Brazil

Gomes points out that success in Brazil can easily lead to success further afield. "Companies need to think beyond Brazil. The pipeline market worldwide is worth $50 billion per year. Petrobras is growing strong outside Brazil – in Venezuela, Argentina, Bolivia, Columbia, Paraguay, Uruguay, and into Africa and the Middle East. Canadian companies have the competence to take part, to access international business."



Doğan Holding: Turkish Conglomerate Looks to Canada

BY GLORIA LEVY

Doğan Holding now ranks among Turkey's top three conglomerates, has an interest in some major business areas including newsprint, energy and construction.

Photo: courtesy of Doğan Holding

"Although Turkey still experiences bouts of financial instability whenever the tide of investor sentiment turns against emerging markets, the country has made excellent progress in bringing its economic structure closer to European standards," says Stephen Poloz, EDC's Senior Vice-President, Corporate Affairs and Chief Economist. "Privatization initiatives, along with bank regulatory reform and progress on the fiscal front, have combined to increase the comfort level of international investors in Turkey's longer-term outlook."

This all matters to Canada, as Turkey is a big potential export market. "Annual Canadian exports to Turkey are currently about $500 million," adds Poloz. "Turkey's total imports amount to more than $100 billion, so there is plenty of scope." In 2005, EDC facilitated more than $376 million in transactions in Turkey by 158 Canadian companies.

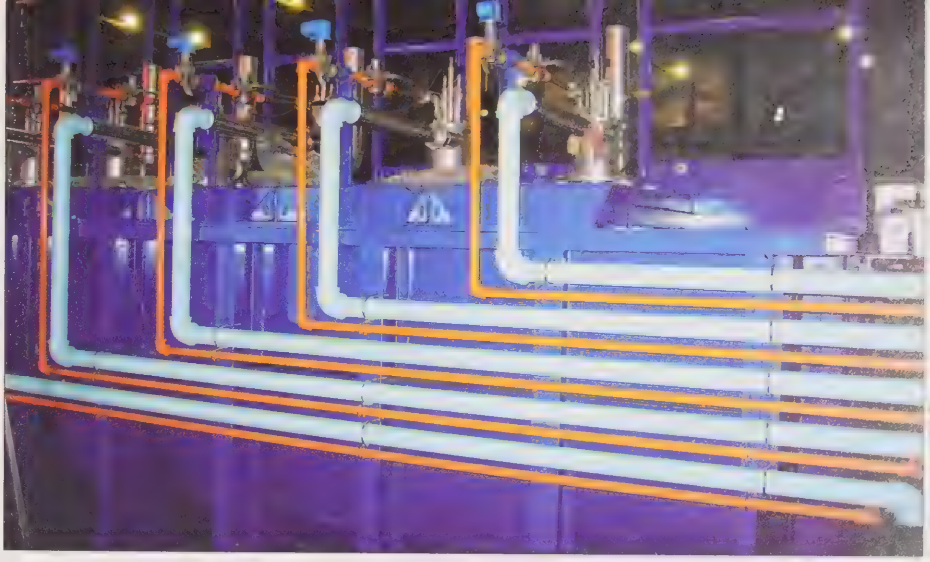
High on the Turkish government's agenda is the privatization of a number of State Economic Enterprises, which have traditionally dominated the economy. A prime example is Doğan Holding (Doğan), one of Turkey's largest conglomerates. The Istanbul-based company is expanding its diverse portfolio through privatizations, presenting opportunities for Canadian exporters in areas from energy to pulp and paper.

Part of the Doğan Group – which employs 11,000 people and has close to USD 7.5 billion in annual revenues – Doğan Holding traces its roots to a small trading house established during the Second World War. Today the company focuses primarily on media, through Doğan Yayin Holding – owner of major television stations and controlling stakeholder of the Hurriyet, Milliyet and Posta newspapers – and on oil and gas distribution through its energy subsidiary Petrol Ofisi, which operates 3,600 gas stations throughout Turkey. In May 2006, Vienna-based OMV, the largest oil and gas group in Central Europe, expanded into the Turkish market by acquiring a 34 per cent minority interest in Petrol Ofisi, at a price tag of USD 1 billion. Other key sectors for Doğan Holding include insurance, tourism, industry and commerce.

In 2005, Doğan exited the banking arena with the sale of one of its largest assets, Dişbank, to Benelux-based Fortis Group. With EDC very active in Turkey's banking sector by providing insurance coverage for Canadian banks, Dişbank was a key element in the EDC portfolio.

◀ Doğan subsidiary Celik Halat, manufacturers of steel wire for the construction industry.

▶ Doing business with Doğan helped Canadian company I.C.E. establish a foothold in the Eastern European market. Pictured here: Galvanized pipework.



"We are seeing a trend of Turkish acquisitions by major international groups, which demonstrates a strong trust in the country's economy and the wide opportunities Turkey is offering to international investors," comments Burak Aktas, EDC's Regional Manager for South East Europe and the Baltic States.

Doğan imports some 100,000 tons of paper a year from Canada – its primary source followed by Scandinavia – and is looking to develop other sectors. "We expect to purchase approximately $73 million worth of Canadian newsprint in 2006 through Doğan Dis Ticaret, which handles our imports of raw materials," says Ahmet Karacahisarli, Doğan's Financial Affairs Group President. "We are starting to focus more on energy now and are interested in establishing relationships with Canadian suppliers in this area and others such as construction." Karacahisarli advises interested parties to contact him or the Strategy Group President, Yahya Uzdiyen directly about opportunities with Doğan, which informs EDC when tenders are issued. "EDC offers excellent financing products and is known as one of the best in its field," he adds.

All of Doğan's Canadian business is conducted through EDC, which has been providing open account insurance for Doğan's Canadian pulp suppliers since 2001. "Turkey is the world's 19th biggest economy and a strategic emerging market for EDC, so financing could eventually become a key service as well," adds Aktas. "With its population of 72 million people, dynamic private sector, significant geopolitical location, and increasing GDP per capita, Turkey represents a significant growing market, especially for consumer goods. Doing business with established, diversified companies such as Doğan can open all kinds of doors for Canadian exporters."

One company that has recently stepped through those doors is International Combustion Engineering Manufacturing Inc. (I.C.E.), with its USD 2.3 million sale of a galvanizing line to Doğan subsidiary Çelik Halat, a manufacturer of steel wire for the construction industry. The deal is part of a larger, two-year USD 6.4 million modernization of Çelik Halat's 45,000-square-metre facility in Izmit, funded in equal parts by internal company sources and export credit loans from a major German bank and Northstar Trade Finance.

EDC has had a strategic partnership with Northstar since 1994. Export credit loans from Northstar are guaranteed in part by EDC. "The strength of this partnership was evident from day one," says George Lundy, I.C.E. Group's Sales and Marketing Manager. "Within weeks of approaching Northstar and EDC, the transaction reached financial close and we received our downpayment to start work on this contract." Thomas Assimes, Northstar's Regional Manager in Quebec and Atlantic Canada, adds "The Çelik Halat transaction is a good example of how EDC and Northstar work together to deliver enhanced export finance solutions."

I.C.E. is one of six companies belonging to the I.C.E. Group which has its head office and primary manufacturing facility in Montreal, a second plant in England and equipment operating on every continent. With a network of sales managers and agents in selected countries around the world, I.C.E. uses EDC insurance on its performance bonds, accounts receivable and advance payment guarantees. "EDC plays a crucial role in providing us with financial security to work internationally while mitigating the risks involved," says Lundy.

The company, which has been active in Turkey since 1990, began negotiations with Çelik Halat in 2004. "Our relationship with them is still in its early stages," adds Lundy. "We anticipate that it will develop significantly once the equipment is delivered and commissioned in early 2007 with prospects of updating and expanding Çelik Halat's wire galvanizing production capacity to meet increasing demand in the developing markets it serves."

Ahmet Caglar, President of Doğan's Industry and Commerce Group, concurs: "Doğan looks forward to extending our cooperation with I.C.E. as well as other Canadian companies in the future."

Thanks to the Çelik Halat project, I.C.E. has established a foothold in the Eastern European market, which has long been a challenge for the Canadian company. "Already this sale has led to another similar contract in the region with the likelihood of more to come over the next five years," says Lundy.

According to Lundy, Çelik Halat has proven to be a very professional company. "Our relationship is all encompassing," he says. "Each individual has provided us with the required direction and information, from direct contact with the maintenance managers that will be operating the equipment to the President who was involved throughout the contract negotiations." ■

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Regional Representatives

Q&A

In this edition, *ExportWise* talks with two new EDC representatives, Rod Lever for Russia & CIS and Michel Villeneuve for Mexico & Central America.

Rod Lever
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Rod Lever is EDC's first Chief Representative for Russia and the Commonwealth of Independent States (CIS) and will serve the region from a base at the Canadian Embassy in Moscow commencing in early January 2007. This new EDC representation recognizes that trade between Russia and Canada is growing rapidly and that Russia is now EDC's fourth-ranked emerging market worldwide. EDC's business in Russia grew 148 per cent from $202 million in 2004 to $501 million in 2005, more than 85 per cent of all Canadian exports to Russia that year.

Why did EDC decide to have a representative in Russia and the CIS?

Until recently, trade (particularly with the CIS states) was underdeveloped and still recovering from the 1998 financial crisis. It's taken until now for the level of Canada-Russia trade to reach a critical mass where Canadian exporters and investors have a need for the on-the-ground support EDC can provide.

What kind of background knowledge do you bring to your new position?

I have been leading EDC's strategy and business development efforts in Russia and the CIS for the past two years, focusing on priority sectors where there are good matches between Canadian capabilities and Russian import needs. The move to Moscow is the next step in building on this success. Prior to my work on Russia with EDC, I worked with the Center for Trade Policy and Law and with CIDA on Russian trade issues and participated in training for Russian trade officers preparing for Russia's accession to the WTO. In my academic work at the Norman Paterson School of International Affairs at Carleton University, I studied the complementarities between Canadian and Russian industry. I now have the opportunity to combine this research knowledge with front-line business experience to influence the trade situation and help Canadian firms capitalize on the opportunities in this vast market.

What does EDC add to the trade services of other Canadian government personnel in these markets?

Canadian trade commissioners focus on front-end business development – helping companies to source opportunities and to navigate Russian business culture. EDC's mandate is to assist exporters and investors in capturing opportunities by ensuring relevant financial services are available to help Canadian firms and their foreign customers to make sales or carry out investments. Having an EDC person in the market, to meet with potential customers of Canadian firms when business development efforts or contract negotiations are underway, can provide that edge that helps Canadian firms beat out foreign rivals.

What sectors show the most promise for Canadians in your region?

Much of Russia's recent growth has come from the natural resource sector, including energy, mining and agriculture, all of which have large appetites for the kind of capital equipment, technological services and engineering support in which Canada excels. One of my main objectives is to help Canadian businesses to penetrate the mid-tier of Russian corporate activity, where the kind of financing tools EDC offers can open doors and create opportunities. Mid-tier Russian and CIS companies have a greater need for our services and tend to be stronger in the regions.

How will you cover such a large and culturally diverse territory?

It will be a challenge, especially since the territory spans 11 time zones! Nevertheless, most of Central Asia uses Russian as its

business language, and the legacy of the former Soviet Union brings similarities in business practices in CIS countries. Logistically, flights servicing the region converge in Moscow. So we determined that EDC can be more effective with a representative located in Moscow, rather than managing the business from Ottawa.

What is EDC's strategy in Russia and the CIS?

EDC has a three-fold strategy. First, we intend to build relationships with Russian and CIS companies. Second, we are developing structures and tools that can service all levels, large and small and thereby access the entire supply chain. Third, we have to deploy these across the region and let Canadian companies know that EDC has the ability to service their needs anywhere and enable them to access opportunities, however remote.

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Michel Villeneuve brings more than 20 years of trade experience to his new appointment as EDC's Chief Representative, Mexico. Michel replaces Doug Fortney who returned to Canada in July 2006 after a two-year posting. Since EDC's Mexico representation was established in 2000, at the time managed by Marvin Hough, EDC has widely expanded its Mexican business volume.

Reaching $1.68 billion in 2005, this level of support represented 47 per cent of all Canadian exports of goods and services to Mexico.

What are your initial impressions after moving to this new position in Mexico?

In a way, my appointment to Mexico represents a return to my roots since I was previously a Chief Representative of CIBC in Mexico City from 1994 to 1996. Mexico has of course changed a great deal since then, and is now much more of an open market than 10 years ago.

With any new position, there are fresh goals and objectives. What are yours in Mexico?

North America is becoming, more and more, one large trading block, so one of my objectives is to help Canadian companies understand how they can include Mexico as part of a larger North American, if not global, business strategy. My role is to use all of EDC resources, contacts and services to intensify the trade between our two countries.

Is there anything new in Mexico that Canadian exporters should know?

More than 1,600 Canadian companies are active in the Mexican market and there is a rapidly growing Mexican middle class. With expanded transport networks, including a more efficient in-transit refrigeration capacity, goods and perishables can reach Mexican consumers faster then ever.

The ability to apply just-in-time delivery and service to Mexican consumers from Canada has evolved tremendously.

Also, Mexico has a free trade agreement with the European Union, which will eliminate all tariffs on most non-agricultural goods by 2007. This represents a real opportunity for Canadian manufacturers and exporters to gain access to the European market via Mexico. There are content requirements, of course. Sixty per cent of the manufacturing must take place in Mexico to qualify, but the synergy of Canadian quality and Mexican manufacturing in order to service the EU can be the linchpin of a global business strategy.

Are there any trade implications stemming from the recent Mexican Presidential election?

Not for the present time. With Felipe Calderon, candidate from the PAN, now confirmed as the President, it is to be expected that the country will continue on the same path with good stability. However, the election encapsulates the divisions within Mexico between a populist, state-driven vision and a liberalized private-sector view.

As it loses its competitive low-wage advantage to China and other nations, Mexico has to move up the value chain and increase its efficiency and productivity to compete internationally. There is a great opportunity for Canadian businesses to assist in this transition. Mexico will need better equipment and some good partners.

How do you plan to promote further trade growth between Canada and Mexico?

Our strategy is to enlarge EDC's efforts to access the middle tier of Mexican business. One of EDC's greatest assets are the financial relationships we have established with key buyers in Mexico and other emerging markets. A key initiative for EDC is to identify and establish new financial relationships with large buyers in emerging markets and then connecting these buyers to our Canadian customers. This type of selective matchmaking has proven to be very effective and will facilitate greater levels of procurement from Canada. Broadening our strategic targets widens our risk exposure and may have less direct immediate payoff.

On the investment side, EDC recognizes that Canadian affiliates often face challenges accessing working capital and credit support for operations in Mexico. Part of my role will be to work with financial institutions and EDC's sector teams to identify Canadian companies that have invested or are exploring investment opportunities in Mexico.

We want to develop a service package that meets the financing and on-the-ground operational support needs required to succeed. I'm looking forward to the challenge. ■

Focus on the United States, Part IV

New York & the Tri-State Area

BY DENNIS AND SANDI JONES

With expanding needs in every sector from consumer products to aerospace, the U.S. Tri-State area, consisting of New Jersey, Connecticut and southern New York State including New York City, is one of Canada's best markets for a huge range of commodities, products and services.

Even a quick glance at the numbers tells the tale. The Tri-State region is home to 16 per cent of all U.S. Fortune 500 companies and almost 25 per cent of all major U.S. corporations. The region's population is nearly as big as Canada's, and its GDP is 34 per cent higher. In 2005, Canadian exporters sold $42.8 billion worth of goods and services to the area, an increase of 7 per cent over 2004, and a full 12 per cent of Canada's 2005 exports to the United States.

In fact, if the region were a country, it would be Canada's third-largest export market after the United States as a whole, with Michigan coming second. Louis Poisson, Consul and Senior Trade Commissioner at Canada's Consulate General in New York City, believes strongly that it's an area ripe with prospects for our exporters. He's not alone in that belief; last year, about 500 Canadian businesses used the Consulate's trade services to investigate market prospects, obtain key contacts and arrange face-to-face meetings in the Tri-State region.

From ground to air

From building projects to aircraft components, the Tri-State region has an appetite for just about everything. "The construction sector is very strong," observes Poisson, "partly because of the huge development projects currently underway in lower Manhattan, which will be worth at least USD 10 billion over the next few years." For Canadian exporters, that translates into steady demand for specialized wood products, heating and cooling systems, security systems and a host of other goods. The region also has a growing appetite for green construction, so it's a market that Canadian providers of environmentally-friendly building materials and services should take very seriously.

IT support for the financial industry, such as back-office services, software and data protection are also promising export areas. So is upscale fashion; Parasuco, a high-end Montreal jeans company, has just opened a shop in New York City. Agri-food is another growth sector, since the region's ethnic diversity makes it an excellent market for speciality foods – not to mention Canadian wines, which the Consulate has been energetically promoting. New York City, of course, is a world centre for culture and the arts, and Canadian firms in the cultural industry should be aware that our New York Consulate is one of only two Canadian Consulates in the U.S. to host a Trade Commissioner dedicated to that sector (the other is in Los Angeles).

The United States' push for homeland security is another fertile field for Canadian exporters, says Poisson. Our New York and Buffalo Consulates have been working together on a program for this sector, which will culminate in two events in New York City and Albany in late 2006. Among current U.S. needs are communications and mobile data terminal equipment, radiological and biological air-testing equipment and first-responder equipment.

The Tri-State region also has a strong aerospace sector centred in Connecticut, and Poisson sees specific opportunities there. "The Consulate and Industry Canada are working on an event for this fall that will showcase Canadian companies and promote our aerospace capabilities to American firms," he notes. "We're capitalizing on the fact that the Canadian Maritime Helicopter Project, which will provide helicopters for Canada's armed forces, is being contracted to Connecticut's Sikorsky Aircraft Corporation. We believe that this will provide excellent opportunities for Canadian aerospace companies to partner with American ones."

EDC AND THE TRI-STATE REGION

Canadian merchandise exports to the United States totalled $343 billion in 2005, of which the Tri-State's share was $42.8 billion. That year, EDC supported approximately $30.6 billion in exports, or approximately 8.8% of all of Canada's U.S-bound exports. About 8% of this business was facilitated by EDC's Short-Term Insurance programs. In the Tri-State region, EDC's Short-Term Insurance programs approved nearly $2 billion in buyer credit limits to 9,563 buyers.

The region is also home to an advanced life sciences sector. Half the U.S. investment in pharmaceutical R&D, for instance, pours into New Jersey. New York State itself is home to 25 academic research institutions and to some of the United States' most important corporate laboratories, many of which have a strong focus on life sciences research. Canadian firms that work in medical technology, biotech and related services may find rich opportunities with U.S. companies and institutions that need outside contractors for research, manufacturing and clinical trial management.

Emerging technologies, even though they aren't yet fully commercialized, offer great potential to Canadian high-tech firms. The Consulate, recognizing this, is working to bring American and Canadian companies and institutions together to explore avenues for R&D and commercialization in these new sectors. "In stem cell technology, for example," says Poisson, "we've had a round-table meeting with 55 American and Canadian scientists to discuss cross-border research funding. Nanotechnology is another area in which we're achieving some success, for example in the partnership that's developing between the University of Waterloo and Columbia University."

Challenges and change

Opportunities are often punctuated by challenges, however. The rise in the value of Canada's dollar has hurt our exporters, especially in the agri-food sector, and the U.S. Bioterrorism Act has made cross-border shipping difficult for some of our smaller food producers. Protectionism, sometimes reflected in a "buy American" approach, can hinder market access as well.

But the major threat, according to Poisson, is the increasing penetration of Asian products into the region. Canada used to be the number-one supplier of furniture to the United States, but China now occupies that position. Similarly, our apparel exports have suffered because of the entry of low-cost Asian suppliers into the market. These two examples suggest a major shift in trade patterns that will inevitably affect our ease of access to the U.S. market, although the full dimensions of the shift are still far from clear.

In Poisson's view, though, these problems are surmountable. The Asian challenge can evolve into an opportunity if it encourages our companies to ally with American firms to exploit complementary product lines, fill specialty niches and develop high-end merchandise that can't easily be shipped from Shanghai; in some sectors, we also enjoy preferential U.S. tariffs and NAFTA advantages. Exchange rate difficulties and border problems can also be overcome; our agri-food sector, for instance, actually managed to increase its exports to the Tri-State area by 7 per cent from 2004 to 2005.

Finding the way in

As Poisson emphasizes, the Tri-State region is so big that an exporter should really treat it like a country. Before venturing there, a Canadian firm must do as much market research as possible using resources such as those available through the Canadian Trade Commissioner Service, Industry Canada and EDC. After identifying the most promising targets, the next step is to visit the region; at this point, the Consulate's trade services can help introduce an exporter to the Tri-State market by providing contacts, briefings, information on local companies and advice about specific sales challenges.

Like all major U.S. markets, the Tri-State region is aggressive, dynamic and highly competitive. But for Canadian businesses with energy and commitment, it promises a vast spectrum of opportunities, from kitchen cabinets to cutting-edge medical technology. ■

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Indonesia: Inroads of Change

BY PETER BRAKE

Photo © Royalty Free/Corbis

▲ Recent growth in Indonesia's agriculture, mining and industrial production sectors have helped to extend economic progress to the nation.

Are economic reforms and political stability transforming Indonesia into a market for Canadian investments and exports?

The current pace of progress against the challenges facing Indonesia is often described as two steps forward, one step back. But those forward steps are becoming steadier and more determined, and opportunities for Canadian companies are growing.

Comprised of some 17,000 islands spread across thousands of miles from the Indian Ocean to the Pacific Ocean, Indonesia suffers from some of nature's most fearsome tsunamis, earthquakes, volcanic eruptions and typhoons, while domestic terrorism and guerrilla activity have undermined efforts to establish political stability. Tied together as a nation by conquest and colonization, unity amongst Indonesia's population of 220 million had long been maintained by authoritarian means. The result has been a legacy of corruption and vested interests that are highly resistant to the kind of democratic changes that offer renewed economic progress and peace.

On the other hand, Indonesia has a strong foundation on which to stake a positive future. The transition to democracy, after decades of dictatorship under General Suharto, was evidenced by a peaceful transfer of power to the first publicly elected president, Susilo Bambang Yudhoyono in 2004. In addition, successful negotiations ending an armed struggle by Aceh separatists in return for limited autonomy has brought a degree of stability to the region.

The Yudhoyono administration has settled on an agenda of economic and political reform with the hopes of encouraging foreign investment and economic growth. Yudhoyono has indicated that Indonesia needs to increase growth rates to a sustained six per cent or better in order to address endemic problems and provide more opportunity for Indonesia's rapidly increasing population. However, institutions such as the World Bank have expressed doubts about Indonesia's ability to sustain long-term growth without significant infrastructure development.

Resource development

A bright light on the economic front, despite the 2004 tsunami, is the recent growth in agriculture, manufacturing and industrial production. The mineral riches of Indonesia, known for their quantity and quality, represent a valuable strategic asset. Properly managed, these mineral resources can extend economic progress to underdeveloped areas and help underwrite the Indonesian government's development plans. For Canadian companies active in extractive industries and related infrastructure, Indonesia's growth offers fresh opportunity.

In fact, the mining sector is a significant contributor to Indonesia's GDP and the major contributor to the GDP of a number of its provinces. The country is among the top 10 producers in the world for gold, copper, nickel and tin. Active mining companies include Freeport, Koba Tin, Newcrest, Newmont, as well as Inco from Canada. Many small Canadian exploration companies have been responsible for some of the most notable discoveries in recent years. In addition, with significant reserves of oil and natural gas, Indonesia is the global leader in exports of liquefied natural gas.

Navigating the market

Rob Simmons, EDC Chief Representative for Southeast Asia, points out that over-

all resource development in Indonesia has suffered from a decentralized confusing regulatory regime.

"Indonesia has not had the degree of foreign and domestic investment in the mining and oil and gas sector warranted by its large reserves because of the country risk factor. Oil and gas activity in particular has declined and Indonesia actually became an oil importer in recent years." Indonesia ranks 20th in the world in oil production and 8th in natural gas production but as reserves have been depleted they have not been replaced by major new discoveries. There are new opportunities for Canadian exporters and investors offering technological advances, such as enhanced oil recovery, deep water exploitation and environmental remediation, a growing concern for many Indonesians.

Simmons believes the Yudhoyono administration is making a serious attempt to address concerns and attract new investment, particularly in the mining sector. "The new draft mining law promises to streamline the licensing process, removing the distinction between foreign and domestic investors and clarifying the conflicting jurisdictions which have governed the sector. It isn't perfect, but the administration has made it clear it wants to attract new investment."

The task of facilitating investment and encouraging commerce in general has been assisted by several government initiatives. These have included the introduction of a sincere anti-corruption campaign, revisions of Indonesia's investment, tax, customs and labour laws as well as a plan for infrastructure development – the 2005 Infrastructure Road Map.

The Road Map highlights the priority of rebuilding and extending infrastructure throughout the country in order to tie the islands together and encourage economic growth in underdeveloped regions. It sets forth a goal of USD 75 billion infrastructure investment over five years with the hopes that half would be funded by the private sector. Principle sectors include transportation, energy, water and sanitation as well as telecommunications. Thus far, there has been limited progress as the Indonesian government has vacillated between acknowledging that attracting investment requires the introduction of market pricing and wanting to maintain social peace and political support for economic reforms by limiting price fluctuations.

Photo: courtesy of Born Heaters Canada

▲ Born Heaters Canada, manufacturers of industrial heating equipment for the oil & gas sector, have experienced success in Indonesia.

Assessing risks

As Andrew Bennett, EDC Political Risk Analyst, states, "Perhaps the greatest challenge to Yudhoyono remains the country's culture of corruption in both government and commercial spheres. In addition, despite the increasing success of Indonesia's counter-terrorism strategy, further terrorist attacks are anticipated, although they may diminish in degree and frequency."

Investors and foreign companies won't soon forget past difficulties in enforcing contractual obligations, the lack of a transparent and consistent regulatory environment, arbitrary and unpredictable interpretation of laws, widespread graft and bribery and lengthy delays in obtaining licenses and permits from an inefficient bureaucracy. Some early successful prosecutions have laid the groundwork for turning Indonesia's reputation around, but a sustained campaign reaching all levels of government and state operations is necessary.

Born Heaters Canada ULC

It should be noted however, that for companies that invest the time to get to know the market, their business experience can be quite positive. Roger Newnham, President of Born Heaters Canada ULC, a manufacturer of industrial heating equipment commonly used in the oil and gas industry, points out that his experience in Indonesia has been very positive. "We set up in one of the free trade zones established by Indonesia and we were able to get going quickly with a minimum of paperwork; certainly no more than necessary for work in Western Canada for example."

Newnham has spent a great deal of time in Indonesia over the years and highlights the positive changes. "I've noticed improvement in safety and security and in living conditions in general. Regulatory requirements for operating a business have significantly lessened over the last few years." He points out that the precautions necessary for Indonesia are not very different from those required to carry on business anywhere in the world.

"You have to visit there to get the feel for the place, to consult the local experts on how things are done and what are the regional customs that should be respected. Indonesia is so large and diverse that each island region has a different feel and unique customs and requirements. Local representation is an absolute necessity."

Progress in Indonesia will continually be challenged by nature's wrath and old habits of cronyism and corruption. However, as Andrew Bennett points out, "President Yudhoyono is highly respected by most Indonesians for his honesty, sincerity and desire to lead real reform. His leadership will be judged for his ability to execute Indonesia's agenda of political and economic reform." The archipelago's endowment of natural riches and new political drive for peaceful stability and development offers a foundation for moving forward. ■

FOR MORE INFORMATION

Rob Simmons,
EDC Chief Representative, Southeast Asia:
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EDC Country Reports:
www.edc.ca: select Resources, then Country Information

Indonesia's National Committee for the Acceleration of Infrastructure Provision:
www.kkppi.go.id

Canadian Trade Commissioner Service:
www.infoexport.gc.ca

Travel Advisory: The Consular Affairs Bureau of the Department of Foreign Affairs and International Trade Canada advises against non-essential travel to Indonesia. The full travel advisory is available at **www.voyage.gc.ca**.

Andean Update

BY DOMINIQUE BERGEVIN

Photo: © Marcos Brindicci/Reuters

A Bolivian military police officer guards the entrance of the Camiri oil and gas plant from Spain's energy company Repsol in the southern Bolivian city of Camiri on May 20, 2006.

Each Andean nation has a distinct operating environment, offering both risk and reward. Elections in many Latin American countries during 2006 showcase the broad spectrum of policies present in the Americas, from neo-liberalism in Colombia to the revolutionary populism of Bolivia. These elections and their aftermath have grabbed international headlines and caused considerable investor disquiet for the Andean region.

Elected in January 2006, **Bolivia**'s President Evo Morales has enacted many radical, interventionist electoral promises, including the nationalization of Bolivia's energy fields. In May 2006, the government set a six-month deadline for the nationalization decree to take effect. Notwithstanding the fact that the process is dragging as a result of its many shortfalls, the government is seeking to enforce new contracts with energy investors to ensure the Bolivian state-owned oil and gas company acquires a majority ownership stake in all operations and levies higher taxes and royalty rates.

This approach to nationalization was initiated by President Hugo Chávez in **Venezuela**'s oil and gas sector. In April 2006, Chávez demonstrated the consequences for investors unwilling to migrate to the government's new operating contracts by confiscating the investments of France's Total and Italy's Eni.

In Bolivia and Venezuela, other sectors involving land concessions will be given similar treatment including mining, forestry and agriculture, largely motivated by the desire for sovereignty over resources and land. Indeed, the sovereignty issue is at the core of Chávez' Bolivarian Revolution and indigenous' grievances that gave rise to Morales' popularity.

In **Ecuador**, similar policies have been advanced by the current government, though its motivation is nuanced. The weakness of the Ecuadorian state has rendered it vulnerable to popular pressure. This year, demonstrations by the country's indigenous people called for government action in the hydrocarbons sector and led to the passage of a new hydrocarbons law increasing taxes on oil revenues, and the nationalization of American-based multinational Occidental Petroleum's oil investment. Ecuadorians will vote in October 2006, but the interests of street protesters will likely continue to influence the policy direction.

In June, **Peru** almost elected a radical populist, whose platform included nationalizing the country's resources. However, he was defeated by moderate leftist Alan Garcia, who promised market-friendly policies and social reform. Garcia will face governance challenges, but will try to strike a balance between neo-liberal and socialist ideals.

In contrast to other Andean nations, **Colombians** re-elected President Uribe in May, enabling the government to continue its hard-line conservative policy agenda, focused on tackling the country's 40-year rebel insurgency. Colombia is increasingly aligned with the United States as it receives billions of dollars in aid, military cooperation and will shortly benefit from a bilateral FTA, pending its imminent ratification. Investor-friendly policies are expected to be sustained, although investors must contend with a high degree of political violence despite improvements over the last few years.

As the wave of elections comes to an end with Venezuela's presidential vote in December 2006 – expected to protract Chávez' tenure – the political environment of the Andean region will become more predictable. Investors can assess strategic opportunities in the region within a political environment set to remain unchanged over the medium term.

David Goldfield, EDC's Regional Manager for Latin America notes that there are many opportunities in sectors for which Canada shows strengths like infrastructure (airports, water resources management, etc), telecom, mining and energy. "These countries are experiencing a resource boom and therefore demand for machinery, services and investment in these sectors is strong." Goldfield recommends that Canadian companies spend time developing relationships and learning to operate in the local business environments. EDC has many financing and risk management tools such as Political Risk Insurance, to help exporters and investors manage the risks prevalent in the Andean region. ■

Dominique Bergevin (dbergevin@edc.ca) is EDC's Political Risk Analyst for South America.

NAFTA

Rules of Origin catching up with the times

BY STEPHEN S. POLOZ

Stephen Poloz,
Senior Vice-President
Corporate Affairs and
Chief Economist

The NAFTA agreement has benefited a lot of companies over the years, and greased the growth in north-south trade. But the world is changing, and NAFTA will need to be modified continuously in order to remain relevant.

Free trade sounds like a simple thing, at least in theory – just make your sale, ship the goods, and collect a cheque. But the real world is not so simple, as there are a lot of rules around NAFTA, including rules of origin.

Rules of origin set out requirements concerning where a good is produced. Participants to the free trade deal wanted to garner the benefits of increased trade, and one of those benefits is to produce goods and services and create employment in their respective countries. To illustrate, suppose a Canadian company is in the business of packaging and marketing to customers in the U.S. and Mexico clothing made abroad. Since the clothing does not originate in Canada, it would not qualify for duty-free trade under NAFTA, whereas clothing made in Canada would.

Sounds reasonable, but globalization complicates things. Companies are actively disintegrating their operations, replacing low-productivity elements of their operations with imported content to reduce costs and become more competitive. This means that the domestic content of Canada's exports is declining – a product may be made partly in Canada, and partly abroad. In the manufacturing sector, for example, the average Canadian content of our exports was 63% in 1990, while today it is around 55%. Since this average includes products with high Canadian content, such as pulp and paper, Canadian content evidently is far less than 50% in many products.

For a product to qualify for free trade under NAFTA, a company must track the value of its product that does not originate within North America. The procedures for doing so are described in a 20-page legal document, while the specific rules of origin, describing the exact guidelines for each and every category of good, consist of 145 pages of legal text. For example, the category "electrical machinery and equipment and parts thereof" requires that 60% of the value of the good originate within NAFTA to qualify for duty-free trade.

With companies altering their global supply chains on an ongoing basis, determining whether a good qualifies for duty-free status is becoming more difficult, and increasing amounts of Canada's trade could fall outside of NAFTA over time. Recognizing this issue, the three NAFTA governments have been working under the auspices of the Security and Prosperity Partnership to simplify the rules of origin. Three sets of revisions have been made to the rules since 2003, the latest in July 2006. In the latter set, the rules were eased around trade in such diverse items as chocolate bars, cranberry juice, leather, cork, feathers, glass, copper and televisions.

For example, taking an imported copper bar and reducing it by at least 50% in thickness into wire will now be deemed to impart Canadian origin to the wire, thereby qualifying it for duty-free trade within NAFTA. Another change removed restrictions on the use of foreign printed circuit assembles in colour television receivers. And, on the more esoteric end of the marketplace, processing imported reptile leather from a wet to a dry state is now deemed to confer local origin.

The bottom line? Qualifying for preferential treatment under NAFTA can be hard work. The NAFTA agreement is a crucial part of Canada's trade infrastructure, and simplifying rules of origin is akin to adding more lanes for transport trucks at border crossings – it benefits everyone. ■

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

EDC At Large

EDC Expands its Presence in China

On Aug 15, EDC established its first permanent representation in Shanghai, business capital of the Yangtze River Delta Region, encompassing the economically booming provinces of Jiangsu, Zhejiang and Anhui. Winston Kan continues as EDC's Chief Representative (Greater China), but will now operate out of the Canadian Consulate General in Shanghai. EDC will now have two bases in the world's fastest growing market to directly address the needs of Canadian exporters and investors and their Chinese partners. EDC will continue its representation in Beijing with Ms. Wang Hui taking on responsibility for supporting local customers and building strategic relationships in China's capital with her base in the Canadian Embassy.

From Shanghai, Winston will focus on helping EDC to realize opportunities in a variety of key sectors including automotive, telecom, building products and forestry, power, agri-food and consumer goods.

For more information, contact: Winston Kan **wkan@edc.ca**; Wang Hui: **hwang@edc.ca**. Full contact information on p. 35.

EDC and Sinosure promote partnership with Canadian business

During a June visit to Canada, Sinosure joined EDC in three roundtable sessions to promote the benefits of the Agreement to Canadian companies investing or thinking of investing in China. These sessions were designed specifically for Canadian companies with affiliates in China and Canadian commercial banks. Canada's commercial banks were particularly interested in the Agreement, recognizing the value of Sinosure's products and services to their operations and those of their customers.

Sinosure is China's export credit and insurance agency offering a range of insurance and guarantee services promoting exports from China. EDC and Sinosure developed a joint Risk Sharing Agreement in November, 2005. The Sinosure Agreement offers EDC clients access to ARI coverage for their affiliate export sales business in China and greater likelihood of gaining access to working capital from China-based banks.

For more information on the EDC/Sinosure Agreement, contact Mark Bolger, EDC Senior Advisor for Asia. **mbolger@edc.ca**.

EDC launches renewed Education and Youth Employment Scholarship Program

A new national campaign will launch EDC's renewed undergraduate scholarship program in November. Rather than offering scholarships to select universities, EDC will reach out to all young Canadians interested in pursuing studies in international business and/or economics. Twenty-five scholarships of $3,000 will be awarded and the winners will be encouraged to apply for an internship at EDC next summer to learn about international trade from an EDC perspective. To date, EDC has awarded 168 scholarships and 108 of the winners have opted for a valuable internship at EDC.

EDC hosts auto-parts companies in Central Europe

EDC partnered with the Automotive Parts Manufacturers Association (APMA), International Trade Canada and Industry Canada to host Canadian automotive suppliers on a trade mission to Central Europe from September 18-22, 2006. The visit to Poland, Hungary, Czech Republic and Slovakia aimed to encourage more companies in this sector to develop business in this growing market region.

Since 2004, EDC's Automotive Team and its Chief Representative in Warsaw, Marzena Koczut, have been working with government and industry to promote automotive-sector opportunities in Central Europe. Initiatives included a country-by-country market analysis for Canadian automotive suppliers, speeches to auto association members, and organization of a trade mission to Canada for Polish parts suppliers. Central Europe auto production is expected to exceed five million units by 2008, making it double Canada's vehicle output. Some key Canadian companies such as Wescast, Linamar, Magna, MicroMolds and Leggett & Platt have already made investments in Central Europe.

For more information, contact Marzena Koczut at **mkoczut@edc.ca**.

EDC introduces Online Declarations

In late November 2006 EDC will launch a new online tool so that its Accounts Receivable Insurance customers can complete their declarations online.

Using the new tool will allow customers to:

- complete and file declarations online with auto-calculated premiums;
- request the addition of countries and payment terms to their policy;
- review 12 months of declaration and statement of account history; and,
- self-generate an invoice before remitting payment to EDC.

Customers will be able to access this and other EDC services online by logging on to EDC Direct at **www.edc.ca**. To set up access to EDC Direct, customers should contact their underwriter or the EDC Direct Help Desk. The EDC Direct Help Desk can be reached at **1-888-649-8287** weekdays 8 a.m. to 6 p.m. eastern standard time.

For more information on this and other online tools, please visit **www.edc.ca/edcdirect**. ■

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 am to 6 pm EST.

Insurance

Are you sure your U.S. or foreign customer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **www.edc.ca/insurance**.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than 100 million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

Michael Toope, Editor
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Shortly after finishing the summer 2006 edition of ExportWise, we were very pleased to hear from Eric La Violette of CanDOCK, the floating dock exporter featured within the article on China (p. 18). Eric told us that CanDOCK had landed a major new contract to supply docks for the Asian Games to be held in Doha Qatar December 1-15, 2006. Asian Games organizers approached CanDOCK's Qatar dealer after being impressed with what the Deauville, QC exporter had supplied for the East Asian Games in Macau in 2005. The new contract is on a much larger scale and delivery is on a shorter timeframe.

Eric reported that "in August we got the job. This entire project was prepared in a time frame that many companies would have refused… one month to fill nine 40-foot HC containers with docking equipment!" Congratulations to everyone at CanDOCK.

HIGHLIGHTS OF WINTER 2007 EDITION:

SME profiles

We will be introducing a new series of short success stories starting in the winter 2007 edition, briefly profiling the exporting success of several small and medium-sized businesses. We'll start the series with a look at RVA Aerospace from Ontario, Defargo, a sports surfacing company from Quebec, and Precision Metal Works from New Brunswick.

The seafood industry

Despite enormous challenges and tremendous change over the past several decades, many very strong seafood companies maintain profitable exports. Change in this sector is frequent and rapid, and those who thrive must be agile. How do they do it, and what new changes do they see coming?

Vietnam

The economic outlook for Vietnam is encouraging as reforms leading towards its WTO accession take hold. We'll talk to several companies that have been active in the market for a few years for their insights on the opportunities and hurdles.

Foreign Exchange Facility Guarantee

EDC launched a new product in 2006 to help exporters manage fluctuations in foreign currency exchange rates. We'll talk to companies already using this guarantee to illustrate how it can help others.

Intellectual Property Protection

We will be providing an introduction to the complex world of intellectual property (IP) protection. There is an enormous amount of complex information publicly available on this subject, and this article will serve as a starting point for further research on the need to protect intellectual property, and to seek professional guidance in doing so.

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Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398.**

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EDC'S MAGAZINE FOR CANADIAN EXPORTERS

WINTER 2007

ExportWise

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Feeling the Pinch

Canada's Seafood Industry adapts to market pressures.

INSIDE

Vietnam: the global supply chain's next manufacturing hub

Matchmaking in Mexico: Auto parts manufacturer Metalsa looks for Canadian suppliers

Focus on the United States: Doing business in the Upper Midwest

Eric Siegel appointed President and CEO of EDC

The Honourable David Emerson, Minister of International Trade, announced the appointment of Eric Siegel as President and Chief Executive Officer of EDC on December 8, 2006. Mr. Siegel's appointment was effective on January 1, 2007.

"Mr. Siegel's broad experience in EDC makes him the ideal candidate for this position," said Minister Emerson. "Under his leadership, EDC will continue to build on its successful history of providing Canadian exporters and investors with the services they need to succeed in today's global marketplace."

EDC's Chairperson, Mr. Paul Gobeil, added that "EDC's Board of Directors believes he has the right combination of experience and leadership for his new role and we look forward to working with Eric and his executive team."

Mr. Siegel has served in a variety of increasingly senior roles since joining the organization in 1979, particularly with respect to EDC's lending portfolio. In 1988 he became General Manager of EDC's medium-term insurance programs. After leading an extensive corporate restructuring between 1993 and 1995, Mr. Siegel was appointed Senior Vice-President of Medium- and Long-Term Financial Services, and then Executive Vice-President in 1997. Mr. Siegel was named Chief Operating Officer in September 2005, assuming overall leadership for EDC's business development and transacting groups. Most recently Mr. Siegel has led the Corporation in a major realignment of its service lines to connect more closely with Canada's exporters and investors and enhance access to EDC's full range of products, capabilities, knowledge and expertise through dedicated sector Centres of Excellence.

Mr. Siegel holds a Bachelor of Arts degree in history and economics from the University of Toronto, a Master of Business Administration degree from York University, and has completed the Senior Executive Program at Columbia University.

For more information on EDC visit **www.edc.ca**.

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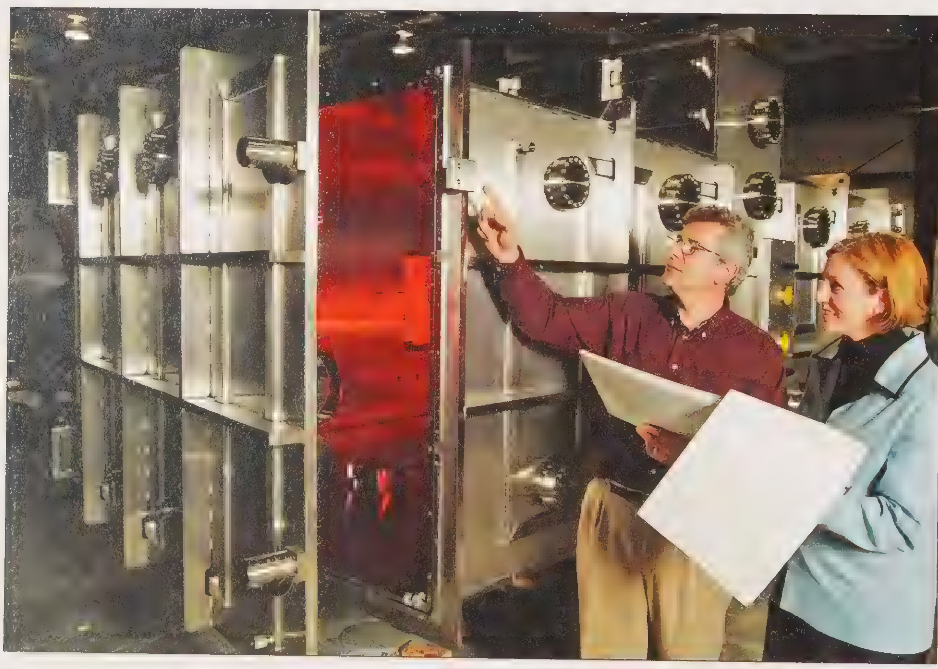

Photo: Courtesy of Precision Metal Works

▲ Precision Metal Works has seen sales grow from less than $1 million in 2003 to more than $11 million in 2006.

Precision Metal Works

Mactaquac, New Brunswick

Precision Metal Works and sister company Precision Nuclear's innovation and "can do" attitude are taking their metal vacuum chambers to a level of quality that few competitors can match. Their large chambers – up to three stories high – are used in making lenses for large telescopes, fibre optics, solar energy panels, semi-conductors and much more.

"Our chambers have to be one thousand times cleaner than an operating room," says Pamela Allen-LeBlanc, Vice-president, Sales and Marketing.

The company was founded in 1988 by its president, Dave Rioux, an engineer by training. From rural Mactaquac, outside Fredericton, it has fulfilled challenging custom orders that bigger global companies have shied away from.

About 95 per cent of the company's clients are in the United States, including the Department of Energy, NASA, Lucent Technologies and Kodak. Many are original equipment manufacturers that export their products around the world. About 3 per cent of its products are sold directly to clients in Asia, Israel and Ireland.

"It takes about the same effort to chase after $3 million worth of business in the United States as $300,000 in Canada," adds Allen-LeBlanc.

Precision Metal Works has seen its sales grow from less than $1 million in 2003 to more than $11 million in 2006. This makes the company one of the top suppliers of larger-sized vacuum chambers in the world.

"When you grow more than 1,000 per cent in two years, imagine what it does to your cash flow. EDC came in with products and opportunities that really helped us grow," says Allen-LeBlanc. The company uses accounts receivable insurance and export guarantees that have enabled its bank to provide more working capital.

Employment has doubled from 25 to 53, with another 40 people expected to be hired as Precision Nuclear develops contracts with Canada's Atomic Energy of Canada Limited to make products for Candu reactors around the globe. Adds Allen-LeBlanc: "This requires the highest level of quality assurance. Not many companies in the world can manufacture to this level." **www.precisionmetalworks.com** **www.precisionnuclear.com**

▲ With EDC's help, Defargo Sports surfacing plans to expand beyond North America.

Defargo Sports Surfacing

Montreal, Quebec

Defargo Sports Surfacing got off the ground in 1990 when its German parent company decided that the Canadian market for artificial track-and-field turf was too small. Sylvain Leclair, now President, and two other partners at the time jumped at the opportunity to form a new Canadian company. Leclair knew the business from the ground up, having started as an installer, and has helped expand Defargo's products into tennis, football and other sports surfaces.

By 2001, the company became an agent for then Southwest Recreational Industries (SRI), a U.S. specialist in the field. This helped Defargo move away from the May-to-September peak installation period in Canada. In 2004 SRI, once a $200-million company, declared bankruptcy.

"In a heartbeat, I jumped on a plane and in one weekend I hired 40 people from SRI. We took over most of the track and field part of the business," says Leclair. "Our business has grown from about $3 million in 2000 to $22 million in 2005, with just under half of the sales (about $10 million) coming from the United States." Defargo is now licensed in 25 states.

Leclair also ascribes his company's tremendous growth to the development in 1998 of a third generation of artificial turf. "It's much more like natural grass, making it more player-friendly, and it's much more affordable; we've cut the cost in half, from about $1 million per field to $500,000." Defargo employs some 65 full- and part-time people in Canada and 50 in the United States. Always aiming to avoid cyclical slumps, Defargo is now working on developing business in Chile, where the seasons are opposite to those in North America.

"Before 2000, we had done a project in Tunisia, laying about 11 sports fields, which didn't turn out well financially. When the damage was done, we learned how useful it was to have EDC," says Leclair. EDC has provided accounts receivable insurance and, most recently, performance security guarantees to Defargo's financial institution. "EDC has been helpful in growing our business. With our new vision to go outside North America, EDC is a must." **www.defargo.com**

RVA Aerospace Systems

Orangeville, Ontario

If you are flying over Chile or China, rest assured that the ground signals for accurate flight paths and safe landings have been checked and calibrated by a top-notch Canadian flight inspection system. That's RVA Aerospace Systems' business and the safety of our air travel depends on it. The system is highly complex, and so is bidding for contracts around the world that are worth millions of dollars.

Roy Vousden, President, founded the company in Ontario in 1992, after gaining experience in the industry as an engineer for then Litton Industries. Specialized flight inspection systems was a small niche market and Vousden saw an opportunity to develop a new concept and more cost-effective manufacturing. He now hires up to 10 subcontractors for major projects.

His latest successful contract, worth more than $5 million, was with the government of China. This is RVA's largest deal, and one that can lead to future sales in the region. But it was also RVA's biggest challenge to date.

Each flight testing system is custom-designed and can take two or three years to implement. Bidding for an export contract is arduous, time-consuming and expensive. "One of the aircraft suppliers told us about the opportunity in China," says Vousden. "We worked on and off with the Canadian Embassy in Beijing and other contacts in China for about eight years."

Perhaps the biggest obstacle for RVA, which has the technological know-how but not the big-business machine to back it, is financing. "Our contracts require large down payments to build the equipment and expensive performance bonds to guarantee our systems and their safety. Banks were just not interested in giving our small company bonds of a million dollars or so."

"So we looked into Canadian government programs that could help and that's how we got involved with EDC. We first used them with our Chile project in 1998, worth about $2.5 million," says Vousden. "EDC was extremely helpful. We probably could not have done the Chile or China project without them." **www.rva-aerospace.com**

▼ RVA Aerospace Systems' contracts require large down payments to build the equipment and expensive performance bonds to guarantee the systems.

Fishing nets in Petty Harbor, Newfoundland.

BY DENNIS AND SANDI JONES

For hundreds of years, the riches of Canada's seacoasts have fed millions and underpinned regional economies. That remains true today, and the three components of Canada's seafood industry – wild fishery, aquaculture and seafood processing – remain vital to British Columbia, the Atlantic Provinces and to Canada as a whole.

At the same time, factors such as market pressures, foreign competition, sustainability issues and exchange rates have, for the past several years, been inflicting considerable stress on the industry. Undaunted, however, the sector is finding ways to ride out the squall; it has weathered many storms in the past, and is confident that it will do so again.

Top of the food chain

The sector is important to Canada and to Canada's international trade. To begin with, Canadian seafood is exported around the globe, and the volume of these exports puts the country among the world's top producers. Canada's industry usually places fourth, after China's, Thailand's and Norway's, or sometimes fifth, depending on where the United States is in the ranking. Of the economically important species, lobster comprises 25 per cent of Canadian exports, crab 15 per cent, shrimp 11 per cent and salmon 12 per cent, with the balance in assorted other species. Wild capture accounts for 76 per cent of total production; the remainder comes from aquaculture.

The sector's annual gross revenues are $5 billion, of which $4.3 billion is generated by export sales. That's about 1 per cent of Canada's total annual exports, but this apparently modest percentage belies the industry's importance to the Atlantic Provinces and British Columbia. In 2005, excluding energy exports, seafood accounted for 37 per cent of Newfoundland and Labrador's exports; for Prince Edward Island, 32 per cent; for Nova Scotia, 26 per cent; for New Brunswick, 21 per cent; and for British Columbia, 4 per cent. The sector also provides work for approximately 130,000 people, most of whom live in about 1,500 small communities on the east and west coasts. It is thus vitally important to regional social fabrics as well as to regional economies.

The industry's international market share has, however, been slipping for four consecutive years. "There's a mix of reasons for this," says EDC Economist Geoff Stone, "but the common factor is the stronger dollar. It's been gradually appreciating against the U.S. dollar for several years, and because Canadian exporters usually sell for U.S. currency, their profit margin has been steadily squeezed."

One effect of this unfavourable exchange rate is to sharpen the

Change

Canada's Seafood Industry in Transition

Photo © Niall Benvie/Corbis

competition presented by countries like China and Thailand, which already have an edge over Canada because of their low-cost labour. Since 2002, the stronger Canadian dollar has resulted in an 18 and 25 per cent improvement in the domestic costs of Thai and Chinese producers respectively. This has made life difficult for Canadian processing companies, causing some to keep their head offices in Canada but relocate their operations elsewhere.

Keeping an edge

But Canada does have its own competitive advantages, which can be summed up as quality, sustainability and reputation. "Our seafood sector has a very good image abroad," says Jo Anne Roy-Foster, Assistant Director, Agriculture and Agri-Food Canada. "We have quality products, we have pristine waters, our fisheries are sustainable and we have a history of very good working relationships with our partners."

Nell Halse, President of the Canadian Aquaculture Industry Alliance, agrees. "One of our strengths is the environment. We have a huge coastline, some of it completely undeveloped. Our work force is excellent, and we have a real entrepreneurial spirit that fosters a lot of innovation and research. The St. Andrews Biological Station in New Brunswick, the Atlantic Veterinary College in Prince Edward Island and the Centre for Aquatic Health Sciences in British Columbia are just three of Canada's centres of excellence for aquaculture, with work going on in areas like oceanography and fish health. Another example is the multi-partner Cod Genome Project, which is providing science to support the farming of cod."

The focus on quality is equally strong in the British Columbia wild salmon fishery. "Quality is what we're striving for," notes Grant Snell, General Manager of the BC Salmon Marketing Council. "It's our ticket to the future, provided we make sure that it's both created and recognized, and that the fishery supporting it is sustainable. That means we have to catch the right amount of salmon, keep them in the right state of quality, and get them to the right market at the right time."

Our competitive edge in this area is very real, and is helping the industry diversify its markets. The United States has always been our largest seafood customer and will no doubt continue as such, but the


Photo: © Joel W. Rogers/CORBIS

Fishers haul in a net full of sockeye salmon in the Johnstone Straits, Vancouver Island, B.C.

European Union (EU), Japan, China and Hong Kong show growing appetites for Canadian products. Almost all our lobster, for example, used to go to the United States, but now about 20 per cent of the 50,000-ton annual catch ends up on European tables. Some of it is put there by Ferguson's Lobster Company, an established Nova Scotia seafood firm. "Our company sells 3.5 million pounds of live lobster internationally every year," observes Stewart Lamont, Ferguson's Managing Director. "Our sales are split pretty much evenly among Canada, the U.S., Europe and Asia, so we're very diverse."

Colin MacDonald, CEO of Nova Scotia's Clearwater Seafoods Ltd., sees the same emerging pattern of diversification, together with a growing need for export credit support in emerging markets – which is where EDC can help. "The continued growth of our exports, especially to areas other than the United States, proves the quality and the success of our seafood industry," says MacDonald. "EDC, by enabling our companies to extend credit to foreign importers that don't have the capacity to produce letters of credit, has taken much of the risk out of exporting to developing nations. This allows Canadian seafood companies to increase their risk profile and thereby expand their export sales."

"In 2005, we provided nearly $700 million of support to the sector through our financing, bonding and accounts-receivable solutions," says Tom Sloan, EDC Vice-President of Resources. "We're also paying close attention to globalization and its increasing competitive challenges, which implies a need for tighter focus on supply chain management and foreign direct investment. We will continue to emphasize our financing and insurance solutions for the sector, which we feel will address the concerns of our customers in the changing competitive landscape."

A satisfied customer

The sector's international customers agree that the high quality of Canadian seafood is among its greatest assets, says Mike Burke, Treasurer of Seafood Resources Ltd., a Rhode Island importer that distributes frozen Canadian seafood across the United States. "We have six Canadian suppliers, with lobster and scallops being the majority of the product we obtain from them. We know that Canadian seafood companies protect their resources and don't allow adulteration, so when we buy a Canadian product, we can distribute it to our customers and be confident that the quality will be consistently high."

Seafood Resources also imports seafood from China, the Caribbean and South and Central America, but Canadian-supplied products account for 60 to 65 per cent of the dollar value distributed. In pounds, the Canadian proportion is about 40 to 45 per cent; the disparity between dollar value and poundage is accounted for by the superior quality of the Canadian product, which puts it at the high end of the price range.

Burke notes that EDC's foreign buyer support is another big factor in Canada's favour. "EDC guarantees a certain dollar amount to our Canadian suppliers when we buy their seafood. That extends the financing available to us, because we don't have to pay our suppliers up front, in cash. That EDC support allows us to buy more products for U.S. distribution, which expands the amount of business we can do with our Canadian suppliers."

Many people outside the industry, if asked about the seafood sector's biggest problem, would say that it was declining wild stocks and lack of sustainability. This is a legacy of the cod disaster, but apart from cod, the wild-capture fishery is in good shape on both coasts. "British Columbia's salmon sustainability is good," says Snell. "Our salmon fisheries are among the most highly monitored in the world, and we're well along the path toward having Marine Stewardship Council Certification for the fishery."

The story in the Atlantic Provinces is similar, according to Lamont. "We monitor our lobster resource very carefully, limiting the length of the season and the number of traps allowed, and setting a minimum carapace length for the lobsters we take. The stocks consequently appear to be in very good condition, so I'm confident about the continuing health of the industry."

It's the same at Clearwater Seafoods, says MacDonald. "We're very happy with current harvest levels and with their sustainability. We invest heavily in technology and science, and to do that, we have

CANADA'S COMPETITIVE ADVANTAGES

- Canada's excellent image abroad for the superior quality of its seafood.
- The coastal environment supports clean, healthy stocks.
- Wild fisheries are carefully maintained and sustainable.
- Good R&D support in areas such as aquaculture.
- Companies are retooling plants and upgrading operations to increase productivity.
- New processing technologies to maintain fresh-caught flavour of preserved Canadian seafood.

Photo: Courtesy of Clearwater Seafoods Ltd.

▲ Nova Scotia's Clearwater Seafoods invests heavily in technology to ensure sustainability.

to be confident that the resources are going to be healthy for generations. For the species we harvest, we do our own surveys to identify not only where the seed stock is, but also to determine what level of harvest is sustainable. Our whole focus is to maximize the return on every ounce of seafood we take out of the ocean, and minimize the impact we have on the resource footprint."

The "boom-and-bust" cycle of the wild-capture industry has historically been another challenge. The B.C. salmon fishery and the Maritime lobster catch are classic examples: until recently, natural life cycles meant that huge numbers of these species were harvested in a few weeks, leaving nothing for the rest of the year and causing drastic price and income fluctuations. Solutions are being developed, however. Ferguson's Lobster now has advanced storage techniques that allow it to hold live lobster in excellent condition for months at a time, providing a continuous supply and preventing artificially low prices. And for wild salmon, says Snell, better at-sea freezing techniques mean that the quality of the frozen product can now be indistinguishable from that of fresh fish.

Aquaculture challenges

The aquaculture subsector of the industry has its own unique challenges. "One of the dilemmas we've had as an industry, says CAIA's Halse, "is our relationship to the Department of Fisheries and Oceans (DFO). On one side, the DFO protects the oceans and fish habitats, but on the other they manage the fishery. They're consequently expected to assume a development role in the aquaculture industry, but regulate it at the same time, and that can make for difficulties in the relationship. Still, the DFO can be extremely proactive on our behalf, as in the case of the St. Andrews Biological Station. But we're really farmers, not fishermen, and in many ways we'd be a much better fit with Agriculture and Agri-food Canada."

That relationship already does exist, however marginally, says Halse. "Through CAIA, our sector is now accessing one of Agriculture Canada's programs; it's the Canadian Agriculture and Food International (CAFI) Program, which helps us promote our seafood in foreign markets."

To resolve these and other issues – such as fish-health management and the lack of insurance for lost stocks – the aquaculture subsector is also working on a framework agreement involving the federal and provincial governments. CAIA is providing input at the federal level as to what ought to be included in the agreement.

For farmed fish, there's also the issue of public trust in the product. Some environmental NGOs are against farmed fish on principle, and have had some success in frightening consumers away from it by unbalanced reporting, such as alleging unsafe levels of PCBs in the product. "We have to provide our retailers with good information," says Halse, "so they can help their customers understand the real situation. We ourselves have to be diligent about doing things better all the time, because consumers are well educated and want to know what they're eating."

Fish processors face yet another set of difficulties. "Labour is becoming a huge problem," observes Agriculture and Agri-Food Canada's Roy-Foster. "Newfoundland is losing its young people to Alberta because the fishing industry can't compete with wages in the oil sector. And in Prince Edward Island, they recently had to bring in Russians to work in a fish processing plant. Moreover, the industry sometimes lacks access to capital. Companies have told me that Canadian banks find it difficult to accommodate the sector at times, and that's providing opportunities for foreign banks to get a foothold here. An Icelandic bank recently set up operations in Halifax, for example."

Another big challenge, in the opinion of Colin Macdonald, is how to create additional value in Canadian seafood products. "As an industry," he observes, "we struggle to maximize value. For example, we need to encourage investment in preservation techniques that lock in the true taste of the seafood. Quality must not be compromised in the harvesting or the processing, because it has become the market differentiator. Our competitors are already making investments in preserving the fresh-caught taste that consumers demand."

Everybody's problem: the dollar

But for every company in the sector, the overriding problem is the Canadian dollar's rise in value against the U.S. dollar and, to a lesser extent, the euro. In absolute terms, if the cost of Canadian seafood is converted to these currencies, the product has become dramatically more expensive for its buyers. This has been a major challenge to everybody's bottom line.

▲ A Yarmouth, Nova Scotia lobster pound.

DOMESTIC DIFFICULTIES

- High Canadian dollar is squeezing profits.
- Boom-and-bust cycle of wild fishery is slowly evening out, but still causes price and supply fluctuations.
- Environmentalist concerns about farmed fish.
- The processing subsector has difficulties acquiring enough labour.

Photo: © John Sylvester/FirstLight

▲ Salmon Farm in Fairhaven, Deer Island, New Brunswick.

"The health benefits of seafood are recognized, and this has helped," says Lamont, "but there's only so much we can do to encourage higher pricing in the marketplace. We aren't recapturing what we've lost, and returns have been marginal for the past two years. A good return these days is a 1 or 2 per cent return on investment. But you can't sustain the seafood industry on a 1 or 2 per cent net to the bottom line."

Lamont believes the industry is in a difficult transition that will take a couple of years to resolve. "I hope we'll achieve slightly higher pricing, due to greater efforts in marketing, while we adjust inventory costs slightly downward. But if we don't manage that, then in the longer term of three to five years, the sustainability of our industry will be very much at risk. However, I do believe that things are going to work out. We have a terrific product, our quality control has never been better, and every market in the world enjoys our seafood. The only question is whether they can afford it."

▼ A Thai shrimp worker gathers prawns from a freshwater pond.

Photo: © REUTERS/Chaiwat Subprasom

The strong Canadian dollar can also be a major problem for an importer because it reduces the importer's buying power. "When you're used to paying USD 18 a pound for lobster meat," says Mike Burke, "and then the dollar weakens by 35 per cent, this translates into a price increase of five or six U.S. dollars a pound. That puts you into a small-margin market, so you have to make it up on volume, and this puts a strain on everyone – on the processor in Canada, on the American importer and on the individual American consumer."

On top of that, Canadian labour costs are higher than those of our competitors, and the last few years have also brought drastic increases in fuel and freight costs. The response of seafood companies has been to add value to their products so they can increase prices, and to focus on their processes to cut costs. However, this can only be taken so far before a company begins to price its seafood out of the market, or damages its long-term viability by failing to reinvest in itself.

Foreign fleets on the horizon

Foreign challenges to the Canadian seafood industry are nothing new – the 1995 "turbot war" between Canada and the EU was a particularly dramatic one, although the competition is normally much lower-key. However, this doesn't mean it's any less intense.

Globalization is part of it. Trade barriers are falling all over the world, and quality is no longer the sole preserve of the developed countries; seafood processing plants in emerging nations are as hygienic and safe as those in Canada – more so, in some cases, because they're brand new and purpose-built.

"The Canadian industry is facing considerable pressure from places like China," says EDC's Geoff Stone, "largely because of their low labour costs. These countries buy unprocessed and semi-processed fish, and process them in large-scale, multi-species facilities. Quality was originally a problem for them, but they're continuing to improve it. Our main edge in this context is our freshness advantage and our proximity to the United States; we have to play to that edge, but we also have to invest in our plants to make them more productive."

Chile is on the horizon, too, especially as an aquaculture competitor. Thailand processes vast amounts of shrimp. Morocco is getting into processing. There's competition from the developed world as well; Norway has long been farming salmon for the European markets. The United States, with a wild salmon fishery in Alaska, may be edging toward protectionist measures that could put our B.C. wild salmon fishery at a disadvantage.

In fact, there are several trade barriers facing our exporters, including traditional tariffs, non-tariff barriers such as sanitary and phytosanitary measures, as well as the potential loss of competitive advantage resulting from the proliferation of bilateral trade agreements. "We're still facing very high tariffs in the EU market," says Roy-Foster, "especially for value-added

THE COMPETITIVE ENVIRONMENT

Foreign processors have a labour-cost advantage over Canadian processors.

The quality of foreign-processed seafood is improving steadily.

Foreign aquaculture industries, such as Chile's, may become significant competitors.

Tariff barriers are falling, but some countries are replacing them with non-tariff barriers and bilateral free-trade agreements that could hinder access to export markets.

products. This is a problem because we'd like to develop more of these products, but we can't always be competitive in the EU if we're facing tariffs of 20 per cent."

We can meet these challenges in many ways. Promoting the sector, branding Canadian products more effectively and improving harmonization on the regulatory side will all help. Governments and the industry can collaborate more closely in areas of food safety and traceability, and can increase levels of R&D and investment. Consolidation will strengthen the industry; retailers themselves are consolidating and increasingly will be seeking out single sources for the products they buy.

Putting plates on tables

"The potential growth of the U.S. market is our biggest opportunity," says Halse. "We need to increase the amount of seafood on consumers' plates by stressing its health benefits, freshness and quality. We see a lot of potential in value-added products such as fillets, kabobs, portions and burgers. Our research shows that the marketplace respects Canadian seafood and will pay a premium for fresh products. We see that as an opportunity for small- and medium-sized companies, as well as large ones."

And while the United States will certainly remain our largest customer, being dependent on a single market is never a good idea. Diversification is a necessity, in MacDonald's opinion.

"China is the biggest opportunity on the horizon. As the Chinese economy grows and its middle class expands, per-capita consumption of seafood will climb, and we're well positioned to take advantage of that. India is another huge market, and we're going to see more consumption in Southeast Asia. Russia's consumption is also growing dramatically. Japan is a well-established customer, and there are possibilities in France, Spain, Germany, England, Italy and Holland. So our best opportunity is to get a foot in the door in these markets and sell all the positive attributes of Canadian seafood. "

Snell agrees, and adds the possibilities of specialization. "Niche markets are going to develop around the world. Anywhere you have a growing market economy, there are going to be high-end opportunities for unique items like wild salmon. We need to make our products known in those markets as they develop."

Emerging technologies and advancing expertise will add to this potential. There's research into modified atmospheric packaging for shellfish, for example, which extends shelf life so that the product can be sold fresh in Europe. High-pressure techniques for extracting lobster meat can make processed lobster almost indistinguishable from fresh. Aquaculture is developing fast, with marine biologists and other specialists researching the best ways to manage the complex technical and biological processes involved in fish farming.

The sector is so diverse, with products ranging from Maritime scallops to West Coast sockeye, that it's hard to make generalized predictions about its future. Shellfish and aquaculture, in particular, appear to be on an upward trend. Some Canadian companies are now exporting wild salmon into France, competing with Norwegian farmed salmon.

In the longer view, people in the industry remain optimistic despite the problems of the past few years. "Yield, value and differentiation are the keys," says MacDonald. "If we're going to compete against the world, we have to ensure that we obtain maximum yield while sustaining the resource, that we present consumers with a clearly differentiated product, and that our product has real value."

If the Canadian seafood industry can achieve these goals – and its long and successful history certainly implies that it will – then the sector will emerge from its current difficulties as a stronger and even more important player on the world stage. And to show that this is already happening, we'll simply let American importer Mike Burke have the final word:

"I wish all countries would do things as well as Canada." ■

PROSPECTS FOR GROWTH

- Diversification of markets is essential to strengthen the industry.
- The U.S. will remain Canada's largest market but could be expanded further.
- China, India, Southeast Asia, Russia, Japan and the EU are potentially rich markets.
- Niche markets for high-end products.
- New processing and preservation technologies will bring new opportunities.

OUR EXPERTS: **For this article, we consulted several experts with a broad range of experience with Canada's seafood industry. They are:**

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Canada Export Centre
International Trade Matchmakers

Photo: Courtesy of Canada Export Centre

Vancouver is Canada's secret weapon, says Mark Mensing, co-founder and CEO of the Canada Export Centre based in Vancouver. "From our vantage point, countries like Japan, China and Korea are the Near West, not the Far East," says Mensing.

BY RANDY FISHER

It's a brash remark, but clearly Mensing is on a mission – an export trade mission *based* in Canada, to be exact.

Increasingly, the Canada Export Centre is the focal point of export opportunities. It is a permanent, high-profile export sales facility with more than 17,000 square feet of exhibition space showcasing hundreds of Canadian products, services and capabilities. Clients have access to meeting and presentation rooms and business support, competitive intelligence and market research services.

Since January 2006, it has also been an important trade route attracting a high volume of top-quality traffic including nearly 100 trade missions, 50 mayors and numerous foreign delegations. More are on the way.

"This is a big deal for Canada. There is significant opportunity to generate billions of dollars in international trade, says Mensing.

The Centre is winning important friends on the West Coast and influencing exporters to build connections, relationships and sales.

It is also turning heads in Ottawa: International Trade Canada's Trade Commissioners are actively referring leads. EDC is getting in on the action too with selected event sponsorships and an agreement to have its products and services featured at the Centre's exhibition space. The Crown corporation wants to promote its insurance and risk management solutions, and make contact with current and prospective customers.

"We want introductions to Canadian exporters and international buyers that we haven't done business with before and the Canada Export Centre provides us with an additional resource to reach these audiences," says Susie Epelbaum, EDC Marketing Manager.

Mensing believes the EDC perspective brings value to the Centre's clients. "EDC fulfills a critical gap in the trade relationship," he says. "They provide economic and market due diligence and important financial and insurance services, which supports successful business growth and international market expansion."

Sharp eye for opportunity

The Canada Export Centre has its roots in the South Pacific. Mensing, who previously sold industrial equipment in Asia and ran an advertising business in Canada, was on the final leg of a two-year sailing trip that included a stop in Australia. While visiting a large-scale exhibition space with numerous trade booths, all under one roof, Mensing saw opportunity to import a concept to Canada. Three products were of interest and he secured the rights to one. "I was like a kid in a candy store."

Realizing an opportunity to offset the high cost of tradeshows and trade missions by creating a platform for Canadian exporters to engage with foreigners, he returned to Canada and began planning with close friend and business partner Michael Lyons, formerly an entrepreneur and real estate investor.

They spent the next year putting together a more detailed business plan and doing their own due diligence with research showing that 88 per cent of foreign inquiries do not get a response because of language or cultural differences.

In July 2004, backed by their own investment capital, the Canada Export Centre opened its doors with Mensing as CEO in charge of sales, and Michael Lyons, President, overseeing daily operations. Since then they have kept a frenetic pace recruiting companies and partners. "Selling international matchmaking services and creating export opportunities is our bread and butter business," says Lyons.

By November 2006, the Centre had sold 220 booths at $8,000 each (annually), well on the way to the 370 total spaces available. HSBC and the Port of Vancouver have come onboard as major sponsors. By late 2007, the Centre has plans to open a location in Toronto.

CEC's services

"We are international trade matchmakers," says Lyons. "We find opportunities for Canadian exporters to grow their business internationally. Our success is to tally up a great amount of trade for Canadian exporters and to be recognized as the physical destination to develop trade opportunities for Canadian companies."

Akin to a 'trade concierge', the Centre has found success with both Canadian exporters and foreign visitors seeking trade opportunities. The Centre provides exhibitors with important export tools including quality leads, meeting space, focused competitive intelligence, market research and foreign language expertise. Market research interviews are conducted in the language of each country, and intelligence reports are translated into English. So far, reports in Spanish and Mandarin are most popular, with Korean and Farsi close behind.

"Our clients treat us as more than just an exhibition facility, but as a practical resource for export information and ideas," says Mensing. "They have questions about the culture of business abroad, how to joint-venture with a Korean company - even how to ramp up operations to meet export demand," he says.

Photo: Courtesy of Safety Bath

▲ With help from the CEC, Safety Bath Hydrotherapy Systems was able to get leads and orders from customers in Russia and Australia.

"We're here to help them," he says, adding that the Centre makes referrals to its partners, sponsors and organizations such as EDC, HSBC, the Trade Commissioner Service and various federal and provincial government departments.

Made-in-Canada export success

"For a small company that doesn't have millions of marketing dollars and wants to get into other countries, joining the Canada Export Centre is probably the smartest move we could make," says Ladamir Kowalchuk, President, Safety Bath Hydrotherapy Systems Inc.

The Saskatchewan-based company manufactures compact walk-in whirlpool bathtubs for residential and institutional use. "The Centre has helped us get leads and orders from new customers in Russia and Australia," he says.

The cost of tradeshows and going on trade missions can be prohibitive to many SMEs. Says Kowalchuk: "From an economics point of view and with limited export experience, it's a great way to get going."

Cloverdale Paint of Surrey, B.C. is also excited by its increased exposure, especially to decision-makers from fast-growing markets in China and Russia. Established in 1938, the company manufactures and distributes a full range of architectural, industrial and high performance coatings. It exports to the United States, and is actively pursuing markets in China, Japan and Taiwan.

Says Martin McKenna, Director of Marketing and Business Development, "The Centre matches up common interests and opportunities, and presents our company to people from all over the world. We can now go fishing with a net instead of a pole."

It's a perspective also shared by International Composting Corp., (ICC) based in Nanaimo, B.C. The firm builds $5 to $6 million turnkey facilities that process organic garbage in 21 days, turning it into compost and then into fertilizer. In Canada, the organic fertilizer is sold to downstream customers such as Home Depot, Canadian Tire and Thrifty Foods. Outside of Canada, the fertilizer can be sold to similar companies.

The potential for exporting this technology is huge, says Kris Obrigewitsch, ICC's Marketing and Investment Development Officer.

Due to language, time and cultural barriers, ICC has faced a tough time selling to Asia, says Obrigewitsch. Yet the Canada Export Centre is making the difference. "It is our first line of offense in terms of selling into Asia," Obrigewitsch says. "We are chasing down a lead in Southeast Asia and making inroads into Shanghai, based on contacts we've made at the Centre," he says.

"It's great for us: we don't even have to leave our facility and qualified prospects come knocking on our doors." ■

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Intellectual Property:

Your most valuable business asset

BY PETER BRAKE

Intellectual property (IP) is the chief and most valuable asset that Canadian exporters have to sell to the world according to Bayo Odutola of the Odutola Law Chambers in Ottawa, a leading intellectual property lawyer and a certified specialist in intellectual property law (Trade mark/Copyright). He is a proponent of Canadian businesses taking an active role in protecting their IP investments. Odutola says that "Business is increasingly about ideas, design and branding, the intellectual property that distinguishes one product or service from another.

If businesses fail to protect their IP investments, then all of the effort to create a brand and market a good or service is going to chiefly benefit those who are intent on trading on their goodwill. Protecting IP is a business, not a legal expense."

This view is shared by Douglas George, Director of Intellectual Property, Information and Technology Trade Policy for International Trade Canada. "Often businesses may recognize the problem but they have less awareness of its extent or how to effectively address it."

Legal regime

IP rights refer to the legal rights which arise from intellectual activity in the industrial, scientific and artistic fields. The intent of a time-limited, government-granted monopoly is a recognition of the tangible value of the time and effort spent in creating something distinctive as well as to promote, as a public benefit, creativity and fair trade. Intellectual property legal rights are comprised of three primary branches; patents, trademarks and copyright. Industrial and scientific inventions may be granted patent rights ,while trademark protection covers a word, symbol or device given to a particular product or service to make it distinctive and unique from those of others. Artistic work such as literary and musical creations and performances fall under copyright protection.

To be effective, IP rights must be applied for in specific jurisdictions. They are only granted after stringent examination and for limited periods. Further, every business has valuable IP assets; often they simply do not know about it. According to Odutola, this is why many businesses neglect to obtain legal protection for their IP assets. "Many companies focus on controlling their expenses and see the IP process as a discretionary expense necessary only if they are doing business in suspect regions. It is an insurance policy, but it also generates value. It is better to pay the cost of registering a company's major asset - its IP - in advance than paying three times as much in court to assert an unregistered claim."

Enforcement in some jurisdictions may be lax and unreliable. Some countries' lack of commitment to IP enforcement may be due to powerful vested interests protecting grey market trading. For others there may be cultural norms that may not value property rights as much as public access and communal ownership. The onus is on the IP rights owner to monitor IP infringement and vigilantly enforce their rights.

Risks and counter strategies

IP theft takes many forms including counterfeit and piracy activity. Counterfeiting is the production of fake goods that appear to be genuine but without the same attention to detail, quality and performance. By contrast, piracy is the unauthorized sale of licensed goods and products in non-licensed areas. Also significant is the theft of patented processes and inventions through industrial espionage.

Odutola points to business practices that make Canadian exporters and investors more vulnerable to IP theft. "As much as 80 per cent of Canadian trade with the United States is in unregistered products and services. This means the United States is a huge marketplace by itself, where goods and products are vulnerable to IP theft. Odutola emphasizes that the first basic step in countering IP theft is to identify your IP asset, then secure its registration in the appropriate countries and enforce it if necessary against third parties. Also equally important is to avoid divulging trade secrets to competitors.

George agrees, noting also. "Many Canadian exporters rely heavily on local agents to distribute and market their products, not all of whom are trustworthy. Canadian business must restrict access to their trade secrets, increase their due diligence on prospective agents and conduct more surveys and periodic checks on business activity."

CRITICAL IP POINTS

Where does one register? Is this the same whether one is dealing with patents, trademarks or copyright?
The Canadian Intellectual Property Office (**www.cipo.gc.ca**) acts as a central registry office for patents, trademarks and copyright.

Do registrations apply only in Canada?
Patents and trademark registrations have to be obtained in individual jurisdictions, but the earliest registration gives legal weight in any legal dispute between jurisdictions. Copyrights do apply across jurisdictions as long as the country belongs to one or more of the international copyright treaties, conventions or organizations.

How long does a registration process take? Does it require a lawyer?
The registration process varies between patents, trademarks and copyrights. Registration time depends on the complexity of the subject of the application. Legal advice in preparing a clear and technically proficient application can help speed the process.

How long is the period of protection? Is this different between patents, trademarks and copyrights?
Patents are granted for a period of 20 years from the date of application, but annual maintenance fees are required to keep the registration in force during this time. Upon registration, trademarks are valid for 15 years and renewable for further 15-year periods on payment of required fees. By contrast, copyright commences upon creation of the work and in most cases lasts for the life of the author plus 50 years. Registration provides legal recognition and protection.

Is there a standard cost for registration?
Costs vary depending on the type of intellectual property right being granted, as well as the complexity of the subject matter. Please refer to **www.cipo.gc.ca**.

The cost of IP theft is immense. Loss associated with IP theft affects business and tax revenue, depressing investment and job creation as well as representing an increased cost for consumers and for business required to safeguard assets and enforce property rights. Most importantly, counterfeit goods do not have to comply with safety and health standards and represent a risk to innocent buyers. The impact on corporate reputation, loss of public trust and quality assurance is incalculable.

George points to international studies that highlight the economic cost of IP theft. "The Organization for Economic Co-operation and Development states that 5 to 7 per cent of world trade may be in counterfeit and pirated goods, totaling as much as USD 450 billion annually." Comparable Canadian figures are between $20 and $30 billion.

He states that the quantity, variety and sophistication of counterfeit goods have substantially increased over the last few years. "As technology has developed, the ability to create more credible and complicated goods has also increased. This is no longer an issue of fake consumer and fashion goods. Pharmaceuticals, engineering products, industrial components, automotive parts and common electrical goods are all targets of counterfeiters."

Sources and enforcement

Many of the leading producers of counterfeit and pirated goods are countries where technological ability has raced ahead of comparable legal and political development. George believes this is a common phase of development for many nations. "China is a major source of many of the fake goods and products uncovered, as much as 60 per cent of global counterfeits according to international experts.

However, all together, up to 67 countries are potential suppliers. What is interesting is that countries like China that are now innovating and developing domestic technology and brands are experiencing the risk of IP theft. There is an increasing acceptance of the benefits of a rigorous and robust IP legal regime and China has made substantial progress in enforcement since joining the World Trade Organization."

George highlights the steps that are being taken to combat counterfeiting and piracy. "Canada has increased its border monitoring and scrutiny activity as well as developing guidelines and best practices protocols for IP enforcement. Globally, international cooperation and coordination has become a higher priority as it is suspected that trade in counterfeit and pirated goods has been used to fund terrorist activity. The pressure on many source countries to comply with IP protection standards and actively combat counterfeiting and piracy is much more intense. "

George and Odutola agree the first and necessary step is for companies to make it a standard practice to safeguard their assets by registering their IP. Odutola stresses the crucial point. "In the supercharged competitive global market, Canada is a leader in exports of high quality goods and services and cutting edge technology. Future export growth will be increasingly fueled by Canada's edge in technology and development. A failure to protect this crucial competitive advantage is a failure of basic business strategy."

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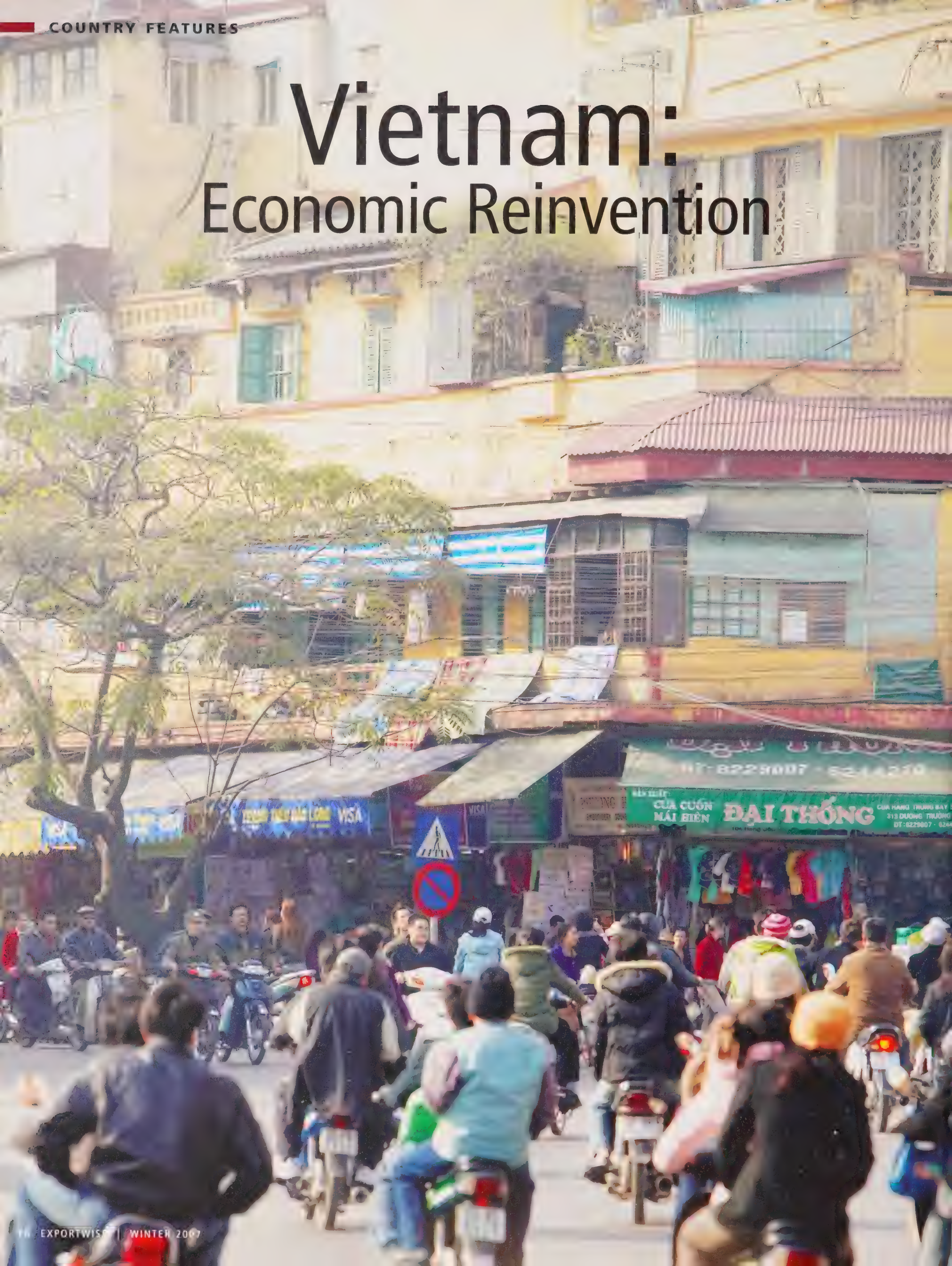
Relevant links:
- Department of Foreign Affairs and International Trade Page on IP: **www.international.gc.ca/tna-nac/FO/intellect_property-en.asp**
- Canadian Anti-Counterfeiting Network: **www.cacn.ca**
- Royal Canadian Mounted Police: **www.rcmp.ca/fio/intellectual_e.htm**

Vietnam: Economic Reinvention



BY DALE MORRIS

With so much focus on **China** as the exploding **Asian economy** to watch, **Canadian entrepreneurs** run the risk of ignoring the emergence of another critical market: **Vietnam**.

In the throes of an economic and regulatory transformation – driven by preparation for accession to the World Trade Organization (WTO) and extension of the global supply chain – Vietnam is emerging as a strategic hub for export and investment.

The country's process of economic reinvention (called doi moi) began in 1986. Much like the approach adopted by China years ago, doi moi concentrates on economic development as a primary means of maintaining the government's ongoing legitimacy. It aims to double the country's GDP by 2010.

Uninterrupted growth ahead

In the last decade, Vietnam's economy has grown at a steaming pace, attaining an average rate of 7.2 per cent. Ho Chi Minh City has led the way, much like Shanghai has in China. According to Rob Simmons, EDC Chief Representative for Southeast Asia, that is changing somewhat. Real estate prices have risen in Ho Chi Minh City, as has the cost of doing business. As a result, investment has begun to pick up in Hanoi, the country's capital, and today both centres are growing rapidly.

Growth shows no signs of slowing down. Vietnam's real GDP is expected to continue to rise at 7 or 8 per cent per year. Investment is increasing at 10 per cent per year. And in 2006, foreign direct investment shot up by 50 per cent. FDI in Vietnam in 2005 was USD 2.2 billion, up 25 per cent from 2004.

According to Statistics Canada, the stock value of Canadian investments in Vietnam was $89 million at the end of 2005.

After much anticipation, in January Vietnam became a member of the WTO, which is expected to help Vietnam refine its reform process, creating opportunities for trade expansion.

"Canadian companies should move now to access the opportunities arising in Vietnam," says Don Lam, managing partner and co-founder of the Vina Capital Group, a leading investment banking and fund-management firm with extensive experience in the Vietnamese market. "If they don't start to look at the market today – to look for partners and gain a foothold – they'll enter too late," says Lam. "Australian and European competitors will take that ground instead."

Part of the global supply chain

As China and other Asian markets look to outsource first-tier manufacturing functions, they are turning increasingly to Vietnam for the production of toys, footwear, textiles, clothing, handicrafts and other simple but labour-intensive goods.

"Vietnam is quickly evolving as the next step for manufacturing companies in their global supply chain," says Mark Bolger, EDC Senior Advisor for Asia. "It is considered an attractive alternative to China, thanks to its program of meaningful regulatory reform and the introduction of incentives to draw foreign direct investment."

Two new pieces of legislation introduced by the Vietnamese government are considered especially pivotal: the Unified Enterprise Law, which will harmonize licensing procedures and the investment approval process for both foreign and domestic enterprises; and the Common Investment Law, which will liberalize foreign investment.

Vietnam's financial sector is also changing at a rapid rate. Traditionally, most domestic financial activity has been conducted through state-owned banks that provided market financing. Increasingly, however, state-owned commercial banks are competing with foreign-invested institutions. This has prompted state-owned banks to upgrade their commercial services, financial products and risk-assessment mechanisms.

Despite these advances, Vietnam's financial sector is still young and not fully developed. Finding credit information on prospective customers and partners, for example – a key issue for Canadian exporters and investors – can be difficult.

Another key focus of Vietnam's reform agenda is combating official corruption, which remains an ongoing challenge today. In 2005, laws governing investment and private-sector activity were changed to clarify roles and interactions between the government and the private sector, and to encourage private-sector growth.

Infrastructure and labour

While the pace of economic expansion within Vietnam has been rapid, challenges do exist – infrastructure being a primary one. This is changing with the construction of new seaports, airports and roads, but moving goods within the country has proved an obstacle to some companies. "Electricity has also been

Environmental regulations moving in the right direction

By Peter Moore

Vietnam's rapid economic growth and recent initiatives to attract foreign investment has opened the door for Canadian and international companies to exploit the country's relatively untapped extractive industry. As with many emerging markets, Vietnam's legislative requirements are slow to meet industry best practice. In addition to a complex and lengthy Environmental Impact Assessment (EIA) process, many of Vietnam's environmental requirements do not meet current internationally accepted standards.

Key differences include gaps in public consultation, disclosure and documentation requirements. As a result, companies have traditionally had to complete two sets of environmental documentation to meet Vietnamese requirements (for overall project approval) and those of international financing institutions to secure appropriate financial and insurance-related support.

Harmonizing the policies

To streamline this process, the Asian Development Bank (ADB), African Development Bank (AFD), Japan Bank for International Cooperation (JBIC), Kreditanstalt Forwiederaufbau Agency and the World Bank have begun to work closely with the Government of Vietnam to harmonize the country's environmental and social safeguard policies and practices to international standards.

Specifically, the ADB has taken the lead role in the harmonization process and has begun to address these deficiencies through the development of gap analysis studies. To date, a gap analysis report and action plan for the harmonization of environmental safeguards have been submitted to Vietnam's *Ministry of Natural Resources and Environment*, while similar studies for resettlement and other social safeguards are underway.

While the process is far from over, it is a step in the right direction and should facilitate opportunities for Canadian companies to do more business in Vietnam.

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problematic: some of the country's generators have had to be decommissioned; replacements will take years to build. Sufficient capacity exists, but not with much to spare. But plans are underway to build a 1500-megawatt plant using natural gas," says EDC Economist Jérôme Bourque.

The deficiencies are much more keenly felt outside the country's urban areas, Bourque adds. "Companies seeking to set up a plant in a rural area must give careful thought to the cost and logistics associated with moving products in and out of the region."

Affordable labour is widely available in Vietnam. "The Vietnamese people have a strong work ethic; they are industrious," says EDC's Simmons. "The country is an active, bustling place." At the same time, Vietnam's labour force is largely unskilled, so businesses must be prepared to train employees or import their own personnel, at least initially, he says.

Development and diversification

As the Vietnamese economy has diversified, so has the country's export/import profile. Vietnam remains heavily agrarian, but it is increasing its role as a manufacturer of industrial equipment. In manufacturing generally, many companies are expanding their operations, creating opportunities for suppliers of equipment and technology. Intel, for instance, has invested USD 1 billion in Ho Chi Minh City; Korean and Japanese manufacturing companies are also setting up shop.

In recent years, Vietnam's agricultural exports have grown in volume, as have those of its oil and gas sector. Japan and China remain Vietnam's largest trading partners, and exports to the United States have continued to boom since the two countries signed a free trade agreement at the end of 2001.

Imports have diversified as the standard of living has risen. There is greater demand today for Western-style consumer goods and transportation equipment. Demand for telecommunications products and services is also on the rise. Cell phone use is increasing, land-line infrastructure is expanding, and demand for

Photo: © Steve Raymer/Corbis

communication networks, programming and components are growing as well.

Canada has benefited from this trend: in 2005, Vietnam imported a total of \$203 million in Canadian merchandise.

EDC's business volume in Vietnam in 2005 was \$171 million, up from just \$37 million the previous year. While this spike is largely due to a single, large transaction, the increase does reflect an upward trend, with 2006 business expected to be around \$60 million.

Hydro-electric expertise is also highly sought-after. This, says Simmons, is another area of opportunity for Canadian exporters. "A number of Canadian equipment suppliers and engineering companies are actively pursuing contracts in the power sector, particularly hydro power."

Another booming sector is insurance. Gary Dawson, President of the Canadian Chamber of Commerce in Vietnam says, "The middle market is bursting at the seams," he says. "There is a lot of consumer spending power and it's expanding exponentially. Consumers are investing more, and acquiring insurance at increasing rates."

Dawson explains that Vietnamese insurance firms lack international experience and expertise. The products they are able to offer their consumers are limited. The Vietnamese population is interested in what foreign firms have to offer.

" Moving forward, EDC is working hard to understand and respond to the rapidly changing dynamic of the Vietnam market," Simmons says. We are looking at new approaches to supporting Canadian participation in infrastructure development in partnership with other financial institutions. We are positioning ourselves to support Canadian investment into

While Vietnam remains largely agrarian, it is increasing its role as a manufacturer of goods.

the market including the supply chain story and we are closely monitoring the development of the private sector and the ongoing equalization of the state owned enterprise sector. “

Modes of market entry

As with all emerging markets, entry requires careful preparation and due diligence. The approach may vary sector to sector but, according to Simmons, there are three typical possibilities:

1. Winning a government contract – with the attendant challenge of having to deal with ministries and bureaucratic systems that lack transparency.
2. Dealing with state-owned enterprises in transition from being state-run to privatized (‘equitized’) organizations – and being subject to rules that will change as the transition is completed.
3. Engaging with a foreign multinational active in Vietnam that has a very commercial approach – where the focus is on one’s ability to fulfill the contract, provide after-sales service, provide reliable product support.

Landing the contract

Ruskin Construction of Prince George, British Columbia, broke into the Vietnamese market with an important contract win. It secured a portion of a contract to provide specialized foundation construction services for Vietnam’s Dung Quat port and oil refinery project. The project will establish the infrastructure to import and export crude and refined oil.

The company’s involvement represents Ruskin’s first foray into Asia. At USD 15 million, it’s also its largest international project.

Operating out of Prince George, British Columbia, Ruskin Construction has provided specialized foundation, marine and industrial bridge construction services since 1989. The company’s clients extend throughout North and Central America – and now into Asia as well, via Vietnam.

With extensive experience working both in the unforgiving environment of Alaska and amid the particular geology of Victoria, B.C. – similar in rock formations and densities to Vietnam – Ruskin was well-prepared to contend with the complexities of the Dung Quat site and the weather challenges of a notorious typhoon season.

The company successfully negotiated the first phase of work by meeting th requirements for performance an advance-payment bonds – both thanks to EDC. It has since taken advantage of ED advanced performance bonds, and of it frustration and receivables insuranc “Had EDC not supported us,” he says, “we would not have been able to enter the mar ket. It’s as simple as that,” says Andrew Purdey, President of Ruskin Construction.

The project mobilized in early fall 2006. While Ruskin found it a challenge to locate qualified personnel and determine the necessary logistics to move goods and services within the country, it found the transfer of goods to Vietnam to be seamless.

“Our first batch of containers left Vancouver on August 26. It arrived at the job site on September 12,” Purdey says. “We were amazed at how cost-effectively and efficiently the goods moved. Vietnam is the other side of the world and yet it requires roughly the same investment as moving goods and equipment to Fort Murray, Alberta – up north.”

Going forward, Purdey has his eye on the broader Asian market. Given Vietnam’s proximity to India and China, it may act as a gateway for Ruskin, particularly given

A Vietnamese labourer works on a cross beam for a bridge that spans the Rinh River along the Ho Chi Minh Trail.

Photo: Courtesy of Ruskin Construction

Ruskin Construction secured a portion of a contract to provide services for Vietnam's Dung Quat port and oil refinery project.

the Vietnamese's focus on developing its port infrastructure.

"We're starting with an international crew in hopes of completing a technology transfer and developing the resources to service the Vietnamese market further."

Joint venture partnerships

In the oil and gas exploration sector, the options for market entry are different still. Calgary's Talisman Energy Inc. is a prime example. Through its two wholly owned subsidiaries, Talisman Malaysian Limited and Talisman Vietnam Limited, Talisman broke into Vietnam through a joint-venture partnership with PetroVietnam Exploration and Production Company and PetroVietnam Investment & Development Company. It was recently awarded access to key areas for offshore exploration.

It was the perfect strategy, given the legislative reality in the oil and gas sector: foreign companies are required to partner with government entities to share investments, learning and profits. They cannot be granted exclusive rights on their own.

"Our presence in Vietnam and our reputation – our demonstrated ability, strong geology and geophysics staff, and ability to follow through – gave us what we needed to win the bids for these exploration blocks," says Jonathan Wright, Vice-president of Talisman Malaysia and Vietnam. "But it was the joint venture that allowed us market entry in the first place."

Wright extols the many benefits of partnership as a means for breaking into the Vietnamese market. "Partnership with a local organization gives you access to people on the ground. Employees are seconded from each company to work together. Typically, the foreign company brings an appetite for growth, as well as technical expertise. The local company knows the political landscape and understands the business culture," he says.

Talisman has recently spudded an exploration well near some very large oil finds. Recognizing the tremendous opportunities in Vietnam in discovery, geomatics, offshore drilling operations, and oil and well remediation, the country will remain a key location in Talisman's global growth strategy.

"Our primary objective is to find, explore and profitably develop oil and gas," says Wright. "We need to find it in large

Photo: © Macduff Everton/CORBIS

With a rise in global demand for Vietnam's agricultural exports such as rice, comes a rise in demand for potash from Canpotex.

Canpotex "grows" potash market share in Vietnam

Canadian exports to Vietnam have risen in recent years, doubling between 2004 and 2005 from $110 million to more than $203 million. The majority of these were from large sales of potash by Canada's Canpotex – for agricultural use by farmers of rice, wheat and other cereals. In fact, Canpotex is responsible for 50 per cent of Canadian exports to Vietnam. *ExportWise* spoke with David Rogiani, Canpotex's Vice-President, Marketing for South Asia & Europe, about his company's experience in the Vietnamese market and how support from EDC has been valuable.

ExportWise: What drives Vietnam's demand for potash?

Rogiani: Vietnam consumes approximately 700,000 metric tons of muriate of potash (MOP) per year. MOP demand in Vietnam is driven solely by the country's agriculture sector. Primary crops produced in Vietnam are rice, maize and coffee beans; Vietnam is currently the world's second-largest rice and coffee bean exporter. On a macro level, the country's growing population and rising standard of living have increased demand for food and reduced areas of arable land. At the same time, global demand for Vietnam's agricultural exports has grown. The government has made it a priority to protect Vietnam's national food production while aggressively developing export volumes. This has forced the country's agriculture industry to focus on higher crop yields through balanced fertilization and higher consumption of MOP.

ExportWise: When did Canpotex begin exporting to Vietnam?

Rogiani: Canpotex's first potash shipment to Vietnam was in 1974. However, it was not until the mid-1990s that Canpotex established a stable, growing market presence. Today, we enjoy a one-third market share in Vietnam.

Talisman broke into Vietnam through a joint venture with PetroVietnam Exploration and Production Company.

quantities, and Vietnam has some large unexplored areas with high potential just in the first phase of exploration. We see good hunting grounds."

The usual rules apply

Regardless of how a company chooses to enter Vietnam, the usual rules of thumb for any emerging market apply.

"Take the time and effort to understand the rules of business in Vietnam, some of which are not so clearly written and can be open to differing interpretations from one government department to the next. The rules are being clarified all the time, caution is always prudent," says Gary Dawson.

Dawson emphasizes the personal nature of business in Vietnam. "They want to know who you are, want a relationship. It may take three or four meetings, getting to know each other. But once they trust you, you will have a strong business relationship."

Given the importance of relationships, EDC's Simmons says customer service is highly valued. "Canadian firms should work hard at convincing their buyers they can deliver on contracts and follow up effectively with aftermarket service."

For more information contact Rob Simmons, EDC Chief Representative for Southeast Asia (rsimmons@edc.ca)

ExportWise: How does Canpotex's business in Vietnam differ from its activity in China, Japan and elsewhere? What are the unique characteristics of the Vietnamese market?

Rogiani: Our business in Vietnam is unique in a couple of ways. First, all Canpotex shipments are strategically delivered through a single port at which Canpotex enjoys exclusivity. This allows significant rationalization and cost saving for Canpotex potash deliveries to this market. Second, Vietnam – like China – remains a socialist country where modern farming practices have not been implemented in any significant way due to farmers' lack of knowledge about the role of balanced fertilization in increasing crop yield.

One of the biggest challenges we face in Vietnam is educating farmers to better understand fertilizer application and its accompanying benefits, namely increased yields and higher revenues. To meet this challenge, we work closely with our Vietnamese customers to set up field trials, farmer workshops, and collaborative market development efforts with the Potash and Phosphate Institute of Canada.

ExportWise: How has Canpotex's business in Vietnam grown over the past five years?

Rogiani: Canpotex MOP volumes have increased more than 15 per cent annually from 134,000 metric tons in 2000 to a peak of 230,000 metric tons in 2004. Drought conditions lowered 2005 volumes but our 2006 shipments are up roughly 15 per cent from 2005.

ExportWise: What opportunities are on the horizon and how is Canpotex preparing for them strategically?

Rogiani: Our market projections in Vietnam are for continuous growth in MOP demand. Vietnam is one of the world's leading exporters of consumable agriculture products. As the country moves away from a planned economy to a market-driven economy, industrialization, urbanization and a higher standard of living will put significant pressure on the agricultural sector to maintain its output. Higher MOP consumption will be essential to Vietnam's continued success as an agricultural exporter. Through a strong and exclusive customer base that represents both direct application distributors and NPK producers throughout the country, Canpotex is well-positioned to meet this growing demand.

ExportWise: How has Canpotex taken advantage of EDC products and services?

Rogiani: Our growth in the Vietnamese market is a result of our close partnerships with three core customers. EDC's open account credit insurance has proved very important to our ability to grow in this market and ship incrementally larger volumes.

ExportWise: What advice do you have for Canadian exporters and investors sizing up the Vietnamese market?

Rogiani: Vietnam's growth potential in the agriculture and fertilizer industries remains very significant. To capitalize on this growth potential, it is imperative to identify the right strategic partners and to work with them on a long-term basis. There are no shortcuts to success in Vietnam.

Free Up Working Capital:

Foreign Exchange Facility Guarantees

BY PETER DIEKMEYER

Increasingly, sophisticated financial innovations like Foreign Exchange Facility Guarantees are making it easier for exporters to manage their currency risks and are helping them get a better handle on their cash flows.

LEPAGE MILLWORK

Photo: Courtesy of Lepage Millwork

▲ During growth phases, capital becomes very important to companies like Lepage Millwork.

Like many who work in export-oriented businesses, Guy Bonneville has been paying close attention to fluctuations in the value of the Canadian dollar. Bonneville is president of Lepage Millwork, a Quebec-based manufacturer of premium doors and windows. Half of his factory's production is destined for the United States, and Bonneville knows that the company's export performance is affected by the loonie's every move.

"We operate in a very competitive industry, with razor-thin profit margins. If the currency moves the wrong way during the time between when we close a deal and when we ship the goods, we could lose money on the order," says Bonneville. "It's tough enough manufacturing value-added products. But the fact that we have to do de facto currency speculation too, makes our job even harder."

The foreign exchange jungle

Fortunately, just over a year ago, Bonneville heard of a new product that substantially reduced one of his key foreign exchange concerns. "Our sales contracts can run several months and occasionally, more than a year. To protect ourselves against changes in the exchange rate we purchase forward contracts," said Bonneville. "The only problem is that banks require collateral, which is usually calculated as a proportion of a contract's value. The amounts can be quite large and they come directly out of our line of credit."

However, during a recent meeting with EDC Senior Account Manager, Jean-François Renaud, Bonneville learned of a new product being launched called the Foreign Exchange Facility Guarantee (FXG), which helps companies by providing banks with guarantees on certain clients' forward contracts.

Bonneville bought Lepage Millwork in 2001, after several years working for a competitor. During the time since he took over, he managed to more than triple the company's sales, with much of the increase due to strong exports destined to supply the U.S. housing construction industry, which was in a boom period during the first few years of his tenure. During that time the company's staff has increased from 60 to 240 employees. Bonneville was quick to realize the FXG's potential.

"We have grown substantially during the past few years and much of our success is due to our foreign market sales," said Bonneville. "However during growth phases, capital becomes very important. We need it to finance our inventory and accounts receivable. The FXG helps us accomplish that."

How FXG works

According to Richard Hussey, Program Manager for EDC's Centre of Expertise for Contract Insurance and Bonding, and a point man on the FXG launch, the

Photo: Courtesy of Procycle

▸ For Procycle Group, international sales and a large quantity of imported parts make foreign currency management very important to their business.

amount of cash or operating line of credit that companies must put up to guarantee foreign exchange contracts, can be substantial. "Depending on the contract's length, it can run as high as 15 per cent of a contract's value," said Hussey. "Under those conditions on a contract of $1 million, a business may have to put up $150,000 of collateral, money that could be used in operations."

When a company obtains an FXG, EDC can guarantee the collateral amount, giving its financial institution the confidence to forego the 15 per cent freeze on the company's cash or operating line capacity (or equivalent amount of money), on forward contracts of up to two years. Qualification criteria varies, said Hussey, depending on the client's overall profile, its technical and financial capacities, as well as other factors. The FXG's cost also varies and is based primarily on the exporter's credit profile.

According to Hussey, small- to medium-sized businesses (SMEs), family-owned firms and start-ups are disproportionately harder hit by foreign exchange collateral requirements than larger publicly traded firms. "The bigger companies tend to be better capitalized and tend to have easier access to financial products and services from their financial institutions," said Hussey. "That makes it easier for them to come up with the money or to work out alternate arrangements."

The Contract Insurance and Bonding group sensed an opportunity resulting from the challenges that SMEs were facing. "There was clearly a market demand for a product tailored to helping SMEs manage their foreign exchange risk," Hussey said. "So our team rattled their brains and the result was the FXG." The new product was launched in 2006 and met with some initial success, particularly in Quebec which has a large manufacturing base, much of which's production is slated for the U.S. market.

Lepage Millwork's banker agreed. "We have been cooperating with them regarding the FXG tool for contracts of one, three and six months," said Andy Slater, of Desjardins Group, who was particularly impressed with the flexibility that EDC has shown. "But some of Lepage Millwork's sales commitments are longer than that. At one point they wanted to negotiate a foreign exchange contract that extends up to 24 months. The EDC people had no problem at all with that."

Companies would be smart to take advantage of products like FXGs, which can help improve their liquidity, says Slater. "In today's business environment every edge counts. That means effective cash flow management becomes more important than ever. Because forward foreign exchange contracts are guaranteed through companies' lines of credit, FXG is an important tool to help businesses achieve that. Having additional borrowing room can help them to grow faster."

Better cash flow cycling

According to another devoted FXG user, the product's introduction could not have come at a better time. "Financial institutions have been more nervous lately about the currency lines of credit they extend," said Daniel Maheux, Financial Director of Procycle Group Inc., one of Canada's largest manufacturers of bicycles and fitness equipment. "You can't really blame them. The Canadian dollar has gone through some fairly drastic swings during the past few years. But the currency swings are also tough on exporters, because we have better uses for our lines of credit than funding foreign exchange transactions."

Maheux isn't kidding. Procycle's high performance treadmills, stationary bikes, steppers and mountain bicycles are in high demand by sports enthusiasts. As a result, Procyle exports close to $25 million per year worth of equipment across the United States and Europe, under the Rocky Mountain and Bodyguard brands.

"Our international sales, coupled with the fact that a significant percentage of the components that we put into our products are imported, mean that foreign currency management is a very important part of our business," said Maheux. "The FXG has been a very important tool in helping us handle that task."

Lepage Millwork's Bonneville also agreed that the product's introduction has had nothing but good effects so far on his company's export performance. He is also glad to be expanding a relationship with a long-term supplier. "I thought that EDC only did accounts receivable insurance," said Bonneville. "But now I know we can do even more business together." ■

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FOR MORE INFORMATION

www.edc.ca/fxg

www.lepagemillwork.com

www.procycle.com

Kazakhstan and Canada

Opportunities keyed on shared strengths

BY PETER BRAKE

Kazakhstan's emergence as a strong growth story hinges on its adherence to an intense development agenda and the presence of stable leadership focused on economic liberalization.

Strategically located between Eastern Europe, Russia and China, the market possesses a wealth of highly sought-after natural resources including large oil and gas reserves. Rod Lever, EDC's Chief Representative to Russia and the CIS, points out, "Despite its remote location as compared to many of Canada's leading trade partners, Kazakhstan has been able to develop commercial relations with Canada keyed to shared strengths in agriculture and extractive industries. It's a market of opportunities worth exploring."

Canada's merchandise trade with Kazakhstan amounted to more than $138 million in 2005 - much of which was facilitated by EDC - consisting mostly of exports of agriculture, mining and oil and gas equipment and machinery. Maxim Berdichevsky, First Secretary, Senior Trade Commissioner at the Canadian Embassy in Almaty highlights the Canadian investment profile, "Canadian investment in Kazakhstan has grown to approximately $2.2 billion, focused largely in mining with diminishing interests in the oil and gas sector. As early mining investors, Canadians established a very good reputation for expertise and environmental management."

Investment climate

Following its independence in 1991 after the collapse of the Soviet Union, Kazakhstan embarked on creating a favourable foreign investment climate. Prices were liberalized, foreign companies were granted special privileges in return for investment and incentives were provided for development within specified industries. In addition, the Kazakh financial sector was rapidly privatized, giving Kazakhstan a head start in creating the strongest and most stable banking system in Central Asia.

The result has been consistent economic growth of 9 per cent or more over the last five years as well as USD 40 billion in foreign direct investment since 1991. The success of Kazakhstan's reform process has been internationally recognized. Both the United States and the European Union have granted it "market economy" status. Global business consulting firm A.T. Kearney ranked Central Asia, led in part by Kazakhstan, as one of the top 25 global destinations for foreign direct investment according to their 2005 Investor Confidence Index. Primary resource companies cited the region as their second most likely target for investment.

Artur Iralin, Trade Commissioner at the Canadian Embassy in Almaty believes Kazakhstan has carefully designed a focused development agenda. "Kazakhstan has set lofty goals, stating that it wants to become one of the World Economic Forum's 50 most competitive states. It has also been working to adapt its trade policies and legal regimes to conform to international standards in order to accede to the World Trade Organization (WTO), a goal that could be achieved as soon as 2007." Canada is one of the countries on the WTO working group assisting Kazakhstan in making the changes necessary to join the WTO.

Opportunities

Lever sees a maturing Kazakhstan economy offering new opportunities in Kazakhstan's commercial sector. "A significant local entrepreneurial class has emerged with a great desire to increase their activities in Kazakhstan's economy. The government, moreover, wants to ensure that Kazakhs – both individuals and businesses – play an active role in the range of economic sectors including natural resources. Foreign businesses active in the market need to be cognizant of this policy priority and ensure their organizations include Kazakh personnel and are recognized for doing so by the government."

Berdichevksy is positive about the new middle class in Kazakhstan. "Canadians have the opportunity to engage with a buoyant Kazakh commercial sector which is eager to enter into mutually beneficial joint ventures. There is a great desire to gain access to leading technology, to develop light industries and services and to introduce international standards for operations and management."

Some of the major as well as medium-sized state-owned enterprises have been put under the umbrella of a state holding company, Samruk, with the long- term view of increasing their operating efficiency, including via privatization. Klaus Buttner, EDC Regional Vice-President of International Business Development, believes there is great opportunity for Canadian business to link up with these

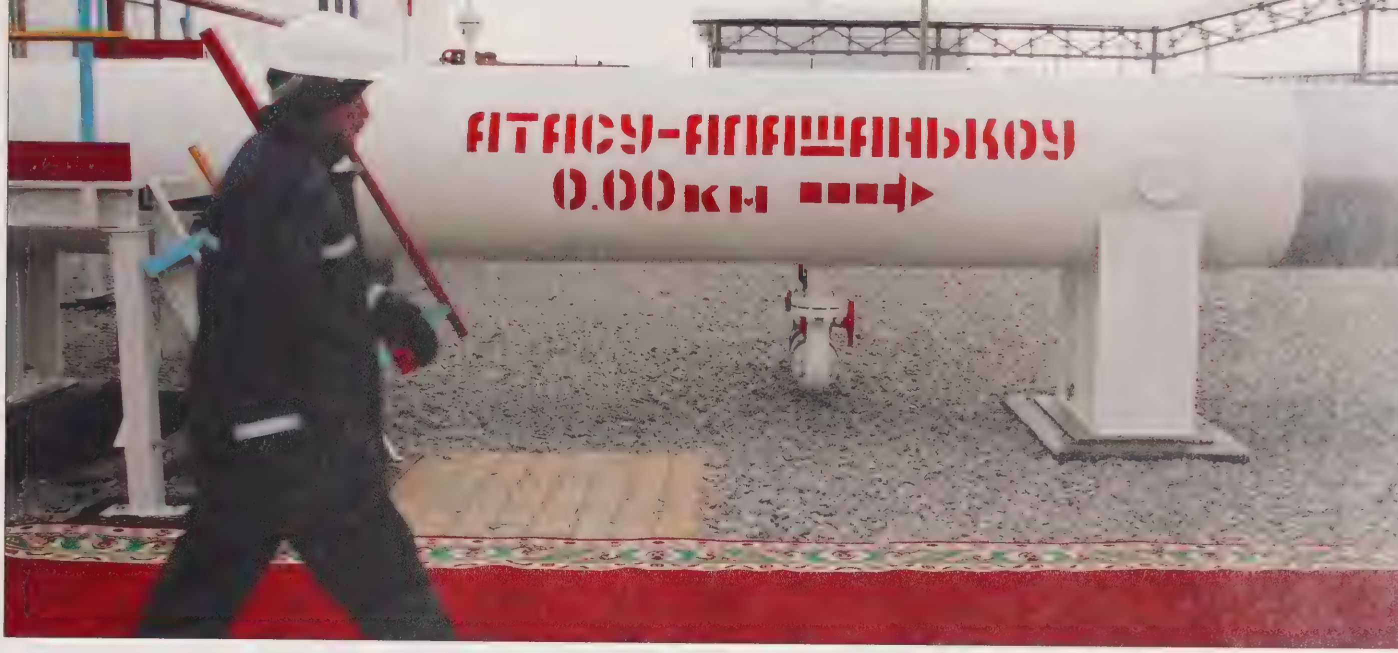

Photo: © REUTERS/Shamil Zhumatov

▲ A 1,000 km-long oil pipeline links Atasu in central Kazakhstan to Alashenkou in western China.

emerging state enterprises and capitalize on their drive to become economically self-sustaining and internationally competitive.

"This is a Singapore-based model where the state incubated nascent industrial capacity in-house," according to Buttner. "The goal is to increase efficiencies and foster domestic abilities. The objective isn't always to privatize but to privatize when it makes economic sense."

Ada Terechshenko, Canadian Trade Commissioner at the Canadian Embassy in Almaty, highlights the strong inroads that Canada has made in the Kazakh agriculture market. "Canada and Kazakhstan share similar weather, topography and soil conditions which favours Canadian agriculture equipment. Canadian equipment has gained nearly 25 per cent of the agriculture and machinery market in Kazakhstan, estimated to have been worth between USD 200 to 300 million in 2005. This market is growing rapidly as nearly 80 per cent of machinery currently in use is old and needs replacing."

Lever points to EDC's strategy of promoting Canadian exporters by developing financial relationships with Kazakhstan's financial sector. "With the signing of a line of credit agreement with Bank TuranAlem (BTA), one of Kazakhstan's leading and fastest growing banks, we greatly increased our ability to meet the need for buyer financing."

Timur Sabyrbayev, BTA's Head of Financial Institutions and Global Trade Finance, notes that this relationship has been mutually beneficial. "During 1.5 years, the line of credit has been fully utilized, leading us to increase the total amount to as much as USD 60 million. With our network of branches in Kazakhstan and our presence in CIS countries, we can enable Canadians access across a wider sector platform, servicing not only agricultural equipment sales but deals in other markets as well." Aerospace is one such industry where BTA has been instrumental in clinching deals matching Canadian expertise to Kazakhstan's need for smaller regional jets and turbo prop planes to service the Central Asian region. They also see potential in the telecommunication sector.

Canadian strategies for success

"One of the realities of Kazakhstan is its remoteness from Canada," says Berdichevsky. "We have to recognize that consistent servicing of the market on a real time basis isn't always feasible, and excessive transport costs often erode competitiveness of Canadian products. So we have to devise sales strategies that recognize Kazakhstan's distinctiveness and maximize our strengths. One of the best ways to do this is to offer turnkey solutions and product maintenance training that enables buyer independence."

Terechshenko thinks customers in Kazakhstan value more comprehensive approaches. "Kazakhstan doesn't necessarily have at this time the capacity necessary to support one-off component sales. They want turnkey solutions so Canadian exporters should adjust their product offering to satisfy local needs." Canadian exporters and investors should also target Kazakhstan's ambitions to develop a highly skilled and educated labour force.

Iralin also notes that servicing certain sectors in Kazakhstan such as the oil and gas and mining industries is highly dependent on developed relationships. "Accessing the supply chain in the local oil and gas industry is difficult unless there is already an established connection with the developers actively engaged in exploration and production.

"The long-term growth prospects for Kazakhstan are very positive," according to Lever. "It not only has the resources that the world wants but its economic policies have been carefully crafted and well-managed. It is well on its way to achieving its goals of being Central Asia's leading economy and one of the world's future tigers." ■

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Metalsa:

Opportunities with Mexican Auto Parts Manufacturer

BY GLORIA LEVY

The capital of the state of Nuevo León, Monterrey is the industrial focal point of northeastern Mexico and the country's second-largest industrial centre after the Mexico City area. It is an important steel-making region and home to a wide variety of light industries, dominated by large family-based *grupos*, Mexico's industrial giants. One of these is Grupo Proeza, whose subsidiary Metalsa is a key strategic account for EDC.

Metalsa is a full service supplier of structural components to the North American heavy truck and light vehicle sectors. Founded in 1956, the company has facilities and offices in Mexico, the United States and Asia, and annual sales of close to USD 700 million. Metalsa's parent company, Proeza, is a diversified conglomerate which has additional interests in foundry, IT and fruit and juice businesses.

EDC has been actively promoting Canadian capabilities to Metalsa and providing the company with syndicated loans since 1999. EDC's knowledge of Canadian exporting companies has allowed it to play a matchmaker role in the Monterrey region, increasing the number of Canadian suppliers on Metalsa's bidder list.

The Metalsa/EDC relationship stems from contacts established during a federal government business development mission to Mexico in 1998. "Metalsa approached us shortly thereafter seeking financing for their expansion from the syndication market," says Norm Low, EDC Vice-President for the transportation sector. "We embarked on a relationship on the understanding that EDC's support was tied to Metalsa's Canadian sourcing and willingness to work with us to introduce Canadian suppliers capable of meeting its procurement needs."

When Metalsa visited Canada in 2001 EDC took Metalsa purchasing staff on a tour of potential automotive suppliers in Southwest Ontario. "From those initial matchmaking sessions, Metalsa began increasing its procurement from Canada and has been very receptive to EDC introducing new suppliers to them," adds Low. In late 2005, EDC renewed an agreement with Metalsa for USD 20 million in financing, part of a larger USD 180 million financing package from a syndicated group of lenders arranged by ING Capital LLC.

"EDC's efforts with Metalsa have been a great commercial success for all parties, and have led to an increase in the number of high quality and affordable suppliers from Canada," says Noé Elizondo, EDC Regional Manager in Monterrey. "Mexico's border region is a key market for Canadian companies looking for partnership and investment opportunities, and EDC financing agreements such as this one with Metalsa help these opportunities become transactions."

Between January and October 2006 alone, Metalsa purchased USD 24 million from Canadian suppliers, while its total purchases from Canada in 2005 reached USD 31 million. "EDC financing agreements pull Canadian firms into the

▼ Steel giant Dofasco has become Metalsa's sole provider of automotive tubes.

Photo: Courtesy of Dofasco de México

▼ Ontario's Eagle Press has become an established supplier of link drive presses to Metalsa.

Photo: Courtesy of Eagle Press

Photo: Courtesy of Metalsa

Metalsa, Mexican supplier of component… North American auto sector, continue… business opportunities with Canada

market by establishing a credit facility with a targeted buyer such as Metalsa and subsequently facilitating the purchase of Canadian products by the firm," continues Elizondo. "This has been an important strategy for us here in Monterrey where our credit facilities with key industrial grupos are attracting Canadian companies that can offer cost-effective solutions to the Mexican market."

Although many Canadian companies have entered the market through joint ventures with local companies that supply the grupos and multinationals in the region, some sell directly to large Mexican firms. Metalsa has acquired equipment such as tooling and presses directly from several Canadian suppliers. Eagle Press, for instance, has become an established supplier to Metalsa of link drive presses for stamping, maintenance and inspection services as well as spare parts.

"Metalsa first approached us through a machinery dealer that was an Eagle Press representative in Detroit," says Ted Polewski, co-owner of Eagle Press. "Our overall experience working with Metalsa has been positive, although it has required a time commitment in order to deal with their system of reviews for the approvals we needed in order to complete the engineering of the program."

Based in Oldcastle, Ontario, Eagle Press has benefited from EDC receivable insurance. "EDC has been a vital partner in Eagle's transfer and link press line growth by reducing receivable exposure in export markets," adds Polewski.

Another key supplier to Metalsa is steel giant Dofasco. The two companies started working together in 1998 to develop prototypes and launch a new hydroform application for the DCX Chrysler heavy duty frames. In 2002, Dofasco de México, a wholly-owned subsidiary, was established in Monterrey as a hydroform tubular company. Since then, Dofasco has become Metalsa's sole provider of automotive tubes, which become the rail members of heavy duty frames, engine cradles, and subassemblies. Metalsa has also awarded Dofasco new automotive programs as well as its slitting business. In a second business related to the steel industry, Dofasco provides Metalsa with toll services.

For Victor M. Cairo, General Manager of Dofasco de México, the company's success in the region is due in large part to the high level of cooperation it enjoys with both EDC and Metalsa. "Although Dofasco has not used any of EDC's financial products, the business networking and contacts it provides have been extremely beneficial," says Cairo. "Our relationship with Metalsa has evolved into a win/win situation based on a long-term view regarding the future business of both companies. Metalsa is a dedicated and well-run company that expects nothing but the best from its suppliers. They are strict and demanding in their requirements, but fair, with a set of core business values. In Dofasco's case, for example, out of more than 2,500 trucks shipped to Metalsa, we have had a perfect record of on-time delivery. This is the result of close collaboration between both companies in order to develop the proper procedure to make things happen as they should."

Cairo has no hesitation in encouraging other Canadian companies to do business with Metalsa and offers the following advice: "It is important to be upfront regarding your capabilities, the quality of your products and the type of services you can provide. If you can meet their expectations, that's great; otherwise, you need to put a plan in place to bridge the gaps. In either case, suppliers that can reach and exceed Metalsa's needs can do very well with them and grow as a result."

Metalsa is equally satisfied with its Canadian connections. "We have an open line of communication with EDC and have had excellent experiences with the Canadian companies they have introduced to us," says Jesus Theurel, CEO of Metalsa. "We continue to look for more business opportunities with Canada, mainly by accessing EDC's network of automotive suppliers. However, we would also like to encourage Canadian firms to contact Metalsa directly or through the EDC office in Monterrey."

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See also "Shifting Gears in Northern Mexico" *in the Spring 2006 edition of* ExportWise *for more information on opportunities in the region.* www.exportwise.ca

Focus on the United States

The Upper Midwest

BY DENNIS AND SANDI JONES

While the Upper Midwest of the United States doesn't have the high profile of more urbanized markets such as California and New York, the area is nevertheless an important export destination for many Canadian businesses.

Comprised of Minnesota, Iowa, Nebraska, North Dakota and South Dakota, the region bought a total of $19.8 billion in Canadian goods and services in 2005. Minnesota was Canada's largest customer by a considerable margin, accounting for $12 billion of this total, followed by Iowa with $4 billion. By dollar volume, the Upper Midwest's major imports from Canada have traditionally been gas and oil, electricity, paper and paper products, aerospace products, motor vehicle components and metals.

From food to fuels

But in the view of Rick Savone, Deputy Consul General and Senior Trade Commissioner at Canada's Consulate General in Minneapolis, the varied economic profile of the region provides a broad range of other opportunities for Canadian exporters, especially small- and medium-sized companies.

"The heart of the region's manufacturing sector is in Minnesota," Savone observes, "and it's very diverse. The dominant sectors are related to the food products industry; General Mills, Land O'Lakes and Cargill are all here. We're also a big hub for medical devices, with Medtronic and St. Jude being leading companies in the sector. At the Consulate we focus extensively on those two areas, but we're also active in promoting Canada in several other areas of the manufacturing sector: building products and recreational vehicles are two examples, with Andersen Windows in the former sector and Arctic Cat and Polaris in the latter.

Nebraska is strong in food production as well, and is home to Tyson Foods and Conagra Foods. Iowa has advanced manufacturing companies, such as Rockwell Collins in aviation and Maytag, recently bought by Whirlpool but with significant facilities in Iowa. And all the states in the region, because they're so heavily agricultural, are big in farm machinery and equipment."

The service industry is active as well. "We're known for three service sectors in particular, all centred in Minnesota. First is the hospitality industry: as just one example, the huge Carlson Companies conglomerate, parent of Carlson Wagonlit and Radisson Hotels, has its headquarters here. Second, because of the medical device industry and the quality of our regional hospitals, we're home to numerous U.S. health insurance companies such as United Health Care. Third is retail, which is very big in Minneapolis-St. Paul; the home offices of Best Buy, Supervalu and Target are here."

For Canadian exporters, Savone sees excellent opportunities in supplying high-value parts to the area's manufacturers of aerospace products, recreational vehicles, medical devices, and agricultural machinery and equipment. Agricultural equipment can be especially promising, because there's a long tradition of regional interest in Canadian farm machinery.

EDC AND THE UPPER MIDWEST

The total value of all Canadian merchandise exports to the United States in 2005 was $343 billion, of which the Upper Midwest's share was 19.8 billion. In the Upper Midwest, EDC's Short-Term Insurance programs approved nearly $435 million in buyer credit limits to 2,263 buyers.

◀ Cargill grain elevator, Duluth Port shipyard, Lake Superior.

Another rich export market is the food production and processing industry; it operates on such a large scale in this region that it's a manufacturing sector in its own right. The opportunities for this sector include functional food ingredients and specialty niche markets.

Canadian companies should also pay attention to new and emerging industries.

"The Consulate trade team is focusing closely on renewable energies," says Savone. "Because of Iowa's huge supplies of corn, its ethanol production is making some of the most important headway in the United States. Canada has a lot of alternative-energy solutions, so we're seeking opportunities to market our technologies to companies in this sector."

Partnership opportunities

These opportunities can also take the form of partnerships. "The region has a wealth of very large companies that focus heavily on R&D to supply their product chain," Savone notes. "They're creating new products all the time, and they're very interested in what Canada can do for them. That translates into partnership opportunities for Canadian companies, and we're actively promoting these. We currently have two arrangements with 3M and with Rockwell Collins, for example, whereby we provide them with a database of Canadian firms that are specifically matched to opportunities within their operations. We're focusing on similar future arrangements with other large innovators."

As for investment in the region, it's very much a two-way street; the Consulate trade team has identified at least 500 local firms that operate in Canada, as well as about 150 Canadian companies that do the same in the Upper Midwest. The venture-capital market is less active than elsewhere in the U.S., but the Consulate can and does introduce Canadian companies to venture funds run by large multinational firms (mainly in the agricultural sector), with venture funds for future product development.

An exporter's experience

From a company perspective, though, what is it like to do business in the Upper Midwest? Very satisfying, in the experience

Photo: Courtesy of Loewen Inc.

▲ Manitoba-based Loewen Inc., manufacturer of luxury wood doors and windows, now has a substantial market in Minnesota.

of Loewen Inc., a Manitoba manufacturer of luxury wood doors and windows. The company now has a substantial market in the Upper Midwest, the bulk of it in Minnesota, but originally entered the U.S. market in the Chicago area in 1990. "At that point," says Al Babiuk, Loewen's CFO, "we aligned ourselves with a couple of chains, and since then it's been a process of determining which distributors can sell our product most effectively."

As Loewen's successful strategy demonstrates, finding the right distributor is crucial for getting started in the U.S. "Moreover," advises Babiuk, "you need to build relationships and branding if you're going to build your business. You need to put people into the United States to develop face-to-face relationships, because a Canadian company trying to find a new market in the U.S. is basically an unknown. And if you're selling an expensive product, as Loewen is, you need an especially good rapport with your distributors. You need to support them so they can build your brand with their customers."

Loewen hasn't encountered any serious problems with selling into the region, although Babiuk stresses that exporters must be familiar with American business practices and how they differ from Canadian approaches. "The Upper Midwest market tends to be a traditional one," he says, "and in many ways it's like Canada. But even so, there are different trade regulations in each state, and the timing for clearing payments differs from Canadian practices. Regional approaches to billing, collections and credit aren't one-size-fits-all, either. As a result, we've focused on our due diligence, and have created a distribution-agreement template that we use with all our dealers. It protects everybody and ensures that we're all using the same contract rules and laws."

Hello, we're over here

One problem for aspiring Canadian exporters to the region, according to Savone, is getting noticed. "The economies of the Upper Midwest and the Prairies are so integrated that U.S. companies don't necessarily see us as a different country or think of us first when they're looking for foreign partners. We're such an easy market to deal with that we are, in a way, the victims of our own success. Conversely, though, this makes the Upper Midwest a very easy market for Canada to reach into."

The Consulate trade team is working hard to raise Canada's profile in the region and to help Canadian exporters enter it. "For Manitoba and Saskatchewan," observes Savone, "we're the number-one window into the United States and we work with a lot of Canadian companies that are considering the region's export potential. We deal with about 300 such clients a year, most of whom are looking for information about key contacts and market prospects, and for advice about how to enter the market. Recently we had about 50 Manitoba participants at a North Dakota border-crossing seminar, and this fall about 60 Canadian companies are coming here for a range of trade events, such as the Farm Equipment Manufacturers' show."

The bottom line, says Savone, is that the Upper Midwest is an excellent place for first-time Canadian exporters, especially those from the Prairie region.

"Given the region's proximity to the Prairies and its openness," he says, "it's the first place they should look when they're doing their market research. The Upper Midwest has a long history of doing business with Canada, and it's a region where Canadian companies can definitely expect export success." ■

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Can India live up to its potential?

BY STEPHEN S. POLOZ

India has always been seen as a country with a lot of economic potential. But living up to that potential will take more than political pronouncements – it will take tough decisions, far-sighted policies and huge investments.

India is a big economy, and it has experienced 6 percent annual growth on average for the past 25 years. In the past three years growth has been even faster, averaging over 8 percent. It is hard to refrain from extrapolating this performance and painting a very exciting vision of India's future.

Sceptics would point out that India's spectacular growth of the past three years happened in the context of a global economic boom and was not home-grown. Many would point to the basic arithmetic of economic growth, and express doubts about whether India has all the necessary ingredients to keep this growth pace going.

Economic growth comes from two fundamental sources – labour force growth, and productivity growth. In India's case, population growth has been trending at a little over 2 percent per year. That means with no change in technology or structure, India should be able to count on at least 2 percent economic growth per year.

Productivity growth is more complicated. It comes from improving technology (better machines), spreading technology (more machines being used by more people) and upgrading worker skills. This is true for any economy. But emerging economies usually get a big part of their productivity growth from changes in economic structure. For example, a farmer who produces just enough to feed his family may be able to move to a manufacturing job and earn enough for his family and manage to save something besides, because his productivity will be higher. Meanwhile, consolidation in the farming sector would mean bigger farms, and more widespread use of farm machinery, so productivity goes up back at the farm at the same time – a win-win for the economy.

Careful analysis of India's economy suggests an achievable productivity growth rate of around 4 percent, which assumes a steady pace of economic restructuring, capital accumulation and skills improvement. Combining this with 2 percent population growth implies that 6 percent trend annual economic growth should be feasible for India. Also, given the large share of the population that is still in agriculture, there is the potential for a big productivity increase beyond this trend line should the usual migration from agriculture to manufacturing and services accelerate.

Our estimates suggest that, in theory, India could catch up to its potential over the next 15 to 20 years by growing 7.5 to 8.5 percent per year and creating 15 to 20 million jobs annually. It would then see a gradual growth slowdown as it caught up to the major economies, which tend to grow by around 3 percent per year.

The arithmetic of growth, however, can only add up when other growth ingredients are present, and on some of these, India still falls short. The most obvious constraint is basic infrastructure – water, waste treatment, energy and transportation. India ranks low in many of these basic competitiveness ingredients. Major economies spend 5 to 7 percent of their GDP each year on infrastructure, whereas India spends around 1 percent per year. To illustrate, India cannot create 15 to 20 million jobs per year, as opposed to the current 9 million, if there is no way for them to get to work; companies cannot become members of interdependent global supply chains if the electricity supply remains unreliable.

The bottom line? India clearly has great potential, and is making major strides in easing its growth constraints. Massive new investments will need to occur in India during the next few years, and Canadian companies and investors are well-placed to participate. ■

Stephen Poloz is EDC's Senior Vice-President, Corporate Affairs and Chief Economist. He can be reached at spoloz@edc.ca.

EDC At Large

Canadian students get ahead: EDC International Business Scholarships

On November 20, 2006, EDC launched its new International Business Scholarship Program offering 25 scholarships to undergraduate university students from across the country as part of its Education & Youth Employment (EYE) Strategy.

The scholarship program is part of EDC's effort to grow Canada's trade competencies and underline the importance of international trade among Canada's future business leaders. Now open to a national audience, the program allows students from all universities across Canada to participate. Along with the $3,000 scholarship award, students may be eligible for a paid work term at EDC's head office during the summer of 2007.

EDC would like to take this opportunity to congratulate the most recent scholarship winners:

Shahmeer Ansari, Helen Frances Burnett, Lydia Li-erh Chang, Richard Anthony Chou, Amy Fisher, Kenneth Gregory Fox, Leandro Freylejer, Gloria Gagalis, Valerie Caroline Gibbs, Stéphanie Haché, Shan He, Olivier Lacourse, Valérie Laferrière, Colin Keith, Richard Lynch, Brian James MacInnes, Russell MacSween Cooper, Karine Marion, Isabelle Melançon, Vivian H. Poon, Bradley James Prince, Daniela Princip, Andrea Nicole Reynolds, David Sanmiguel, Simon-Alix Tremblay, Courtenay Jo-Dean Vermeulen and Vladimir Zivkovic.

EDC gets softwood refunds to exporters in record time!

As part of the Canada-U.S. Softwood Lumber Agreement, EDC undertook the important role of financial agent for the disbursement of refunds and accrued interest to exporters of softwood lumber..

Upon the announcement of EDC's role, we committed to getting the refunds and accrued interest back into the hands of exporters as soon as possible.

Following this commitment, EDC began paying out refunds only three weeks after the agreement came into force, and completed 98.9 per cent of the refunds available under the Deposit Refund Mechanism by December 15, 2006 – the eight-week mark.

24th Annual Let's Talk Exports

EDC is presenting an opportunity to hear our Senior Vice-President, Corporate Affairs and Chief Economist, Stephen Poloz, discuss the latest developments in the global economy including Canada's export outlook, interest rates, the dollar and export strategies to help Canadian companies minimize risk.

EDC hosts these events to share its knowledge with Canadian exporters and investors to help them succeed in global markets. The cross-Canada tour will be held in 18 cities between April and June 2007, and will offer the opportunity to:

- hear from one of Canada's top economists;
- gain a clear understanding of the risks and opportunities for business in 2007-2008;
- network with a diverse cross-section of business professionals;
- receive a copy of EDC's Global Export Forecast, 2007 Spring; and
- discuss EDC's products and services.

For more information, please visit **www.edc.ca/lte.**

EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

Insurance

Are you sure your U.S. or foreign customer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **www.edc.ca/insurance**.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than 100 million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

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All dollar amounts indicated are in Canadian dollars unless otherwise specified.

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Canada EDC

Happy New Year to all!
Here's what you can expect in the Spring Edition of *ExportWise*:

Michael Toope, Editor
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Canada's place in the global mining industry

Clearly, Canadians are successful at mining. We have learned how to manage massive projects in diverse cultural and regulatory environments, we have some of the world's best technical mining advisors and engineers and we make mining equipment that is deployed on projects worldwide. We have learned to do mining responsibly, respecting international best practices for minimizing the impacts.

Globally, the sector is undergoing consolidation and realignment as evidenced by the unrealized marriage of Inco and Falconbridge and the realignment of each under foreign mining giants, respectively; CVRD of Brazil and Xstrata of Switzerland. We'll talk to Barrick Gold Corp.; Chile's Codelco, an important foreign buyer for Canadian mining equipment and services; and other mining experts to learn where opportunities lie.

India's auto sector

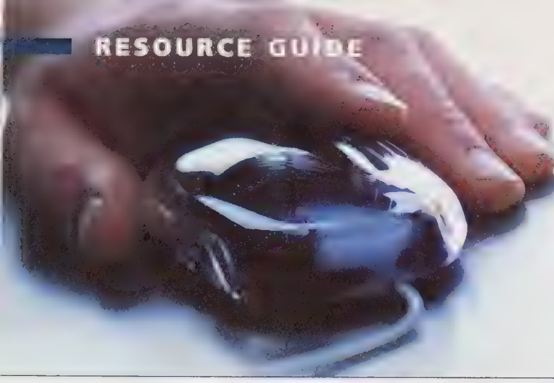
The Asia-Pacific region's car market will double in size within a decade, reaching 17 million cars annually, roughly as large the NAFTA market. A significant portion of that new business will be based in India. A number of Canadian-based parts and component manufacturers are already active in India, with affiliates or joint ventures with Indian partners. Find out what's happening in India and learn what Magna, Husky Injection Molding Systems and Schukra Lumbar Systems are doing there.

Northstar Trade Finance

Northstar Trade Finance was formed in 1994 to support new and growing exporters by filling a market niche that was not being served by conventional sources of trade finance, but which is critical to exporters' success in world markets. They do so for export transactions of relatively low dollar value which makes their service useful for small- and medium-sized exporters.

Turkey's energy sector

Turkey's energy sector is developing rapidly as new infrastructure is put in place to meet growing demand. Vancouver-based Terasen International Inc. is involved in a joint venture with Turkey's Palmet Industry to develop natural gas pipeline infrastructure in the cities of Gebze and Erzurum as part of the Turkish government's initiative to deregulate the industry. EDC and the International Finance Corporation are financing the developments in partnership with Turkey's Finansbank A.S. ■



Trade Resources

A list of associations and government agencies dedicated to helping Canadian businesses succeed.

Federal Government Agencies

Business Development Bank of Canada (BDC):
www.bdc.ca

BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

Virtual Trade Commissioner:
www.infoexport.gc.ca

Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner. This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC.

Canada Business:
www.cbsc.org

Canada Business reduces the complexity and burden of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements for business.

Canadian Commercial Corporation (CCC):
www.ccc.ca

The CCC's mission is "to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions."

Canadian Consular Affairs Bureau:
www.voyage.gc.ca

The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

Foreign Affairs and International Trade Canada:
www.international.gc.ca

Foreign Affairs and International Trade Canada supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful and secure world.

Team Canada Inc.
www.exportsource.ca

Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

Provincial Government Agencies

ALBERTA

Trade Team Alberta:
www.alberta-canada.com/tta

Trade Team Alberta [TTA] is a partnership of the Governments of Canada and Alberta, working together to enhance international business opportunities for Albertans.

MANITOBA

MTI: Manitoba Trade and Investment:
www.gov.mb.ca/trade

Manitoba Trade and Investment's mission is to help build the Manitoba economy through increased exports as well as to attract and retain of foreign direct investment.

NEW BRUNSWICK

Business New Brunswick – Export Development Branch:
www.gnb.ca/0398/export/index-e.asp

Business New Brunswick's Export Development Branch specializes in providing one-on-one counselling and specialized services to export-ready companies and existing exporters.

NEWFOUNDLAND AND LABRADOR

www.gov.nf.ca/doingbusiness

A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

NOVA SCOTIA

Nova Scotia Business Inc.
www.novascotiabusiness.com

NSBI offers a number of export development programs and services that assist small- to medium-sized businesses and local exporters entering new markets.

ONTARIO

International Trade Development:
www.ontarioexportsinc.com

The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

PRINCE EDWARD ISLAND

Prince Edward Island Business Development:
www.peibusinessdevelopment.com

The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

QUEBEC

Services for businesses:
www.entreprises.gouv.qc.ca

Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

Investissement Québec:
www.investquebec.com/en

Original and flexible, its financing products work for companies, cooperative businesses and non-profit organizations at every stage: start-up, expansion, export, R&D activities, merger and acquisition.

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398**.

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777**.

SASKATCHEWAN

STEP: Saskatchewan Trade & Export Partnership:
www.sasktrade.sk.ca

STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

Associations

Canadian Manufacturers and Exporters:
www.cme-mec.ca

Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels. Its mandate is to promote the competitiveness of Canadian manufacturers and enable the success of Canadian goods and services exporters in markets around the world.

Canadian Chamber of Commerce:
www.chamber.ca

As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

Canadian Federation of Independent Business:
www.cfib.ca

CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector. Taking its direction from CFIB members, through regular surveys, CFIB lobbies for small- and medium-sized businesses at the federal, provincial and local levels of government.

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Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **www.infoexport.gc.ca**.


Want your export business to grow? We can help. As Canada's trade finance specialists, we help thousands of Canadian companies and their global customers in up to 200 markets around the world every year. Through our wide range of financial products and services such as financing and cash flow management solutions, we can help your business expand in the global marketplace. We can also help you manage the risks of doing business abroad with our insurance, guarantees and market knowledge. To find out how Export Development Canada (EDC) can help you take your export business to the next level, contact us.
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SPRING 200

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WWW.EDC.CA

Prospects for the Mining Industry

Canada adjusts as global competition rises

INSIDE

As the North American auto sector struggles, Canadian suppliers look to India

Northstar Trade Finance takes on the risk for small business

Growth in the Turkish energy sector opens doors for Canadian suppliers

Lacklustre
Canadian Trade Outlook


Photo: Martin Lipman

Stephen Poloz,
Senior Vice-President, Corporate Affairs and Chief Economist

BY STEPHEN S. POLOZ

Despite some pockets of success, Canada has been losing ground in the international trade game for the past several years. The latest forecasts are no more encouraging, making the time ripe for some new trade-enhancing initiatives.

The importance of trade to Canadian prosperity has increased a lot in the past 40 years. Since 2000, though, Canada has been losing ground in the trade domain.

Total trade (exports plus imports) represented 35 per cent of GDP back in the early 1960s, rose to about 50 per cent by 1990, and then took off in the wake of NAFTA. It hit 85 per cent of GDP in 2000, but has since retreated to 70 per cent in 2006. In terms of pure exports, the pattern is very similar. From less than 20 per cent of GDP back in the early 1960s, exports rose gradually to around 25 per cent of GDP by 1990. They then rose dramatically to 45 per cent in 2000, and have since dropped back to 36 per cent of the total economy.

Two factors boosted the 2000 peak in trade importance artificially. The first was the tech bubble of the late 1990s, which inflated both imports and exports temporarily. Excluding telecom and computer equipment cuts the 2000 peak in trade importance from 85 per cent to 77 per cent, but the hump-shaped pattern in trade remains. The second factor was the Canadian dollar, which depreciated steadily through the 1990s, and then recovered all that lost ground during 2002-2005. Exports boomed when the dollar was falling, and actually shrank in some years during the dollar's ascent.

Accordingly, Canada's trade penetration is about where it was a decade ago, which is especially troubling given how rapidly the global economy has been growing in the past five years. Further, the latest forecasts suggest that, after no growth in 2006, Canada's total exports will remain flat for 2007 and 2008. This is because global economic growth is expected to moderate, from 5.1 per cent in 2006 to around 4.5 per cent in 2007-08. The slowdown is being led by Canada's main trading partner, the U.S., where growth will slow to 2.1 per cent in 2007 before posting a modest recovery in 2008. Exports to emerging markets will continue to post solid growth, but that still represents a small share of Canada's total trade.

Slower global growth is expected to produce softer commodity prices, particularly for base metals and oil, which will cut into export revenues. We are expecting oil prices to average $55 in 2007, and $50 in 2008, which means that the Canadian dollar should decline modestly. We are forecasting U.S. 83-84 cents for end-2007 and 82-83 cents for end-2008.

Accordingly, no immediate strengthening in Canada's trade performance appears to be in prospect. The time is right to boost Canada's international trade potential, and this is the thinking behind the federal government's Global Commerce Strategy, as set out in Advantage Canada last fall and in the spring Budget. The strategy will have several elements, including negotiating more trade and investment agreements and putting more trade facilitators into foreign markets.

EDC plays a supporting role in all this, facilitating $66 billion in transactions for Canadian companies in 2006. Want to break into new markets? EDC did transactions in 184 markets last year, $15 billion in emerging markets. Want to invest abroad to build a global supply network? EDC facilitated over $6 billion in Canadian investments abroad last year. Altogether, the transactions facilitated by EDC helped generate an estimated 3.9 per cent of Canada's GDP in 2006.

The bottom line? Canada's recent trade performance has been lacklustre, all things considered, especially given how rapidly the world economy has been growing. Canadian companies will need to continue to adapt to an increasingly competitive global marketplace. ■

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ExportWise

Cover Photo: Courtesy of Barrick Gold Corporation

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ExFiles

Exporting Success Stories

BY TOBY HERSCOVITCH

Farmer Direct Co-operative Ltd. *Regina, Saskatchewan*

Photo: Courtesy of Farmer Direct Co-operative Ltd.

Three farmers and a shipment of fenugreek to the Netherlands helped launch a certified organic farmers cooperative now involving 70 family farms from Saskatchewan, Alberta and Manitoba, and approaching $5 million in international sales.

"Ninety-nine per cent of our sales are exports, mostly to the United States, with about 30 per cent to countries like Denmark, Norway, Germany, Greece and Italy. We are also inquiring about opportunities in Brazil," says Jason Freeman, Sales and Marketing Manager for Farmer Direct Co-operative, based in Regina.

The cooperative was founded in 2002 by Gene Davis of North Portal, Saskatchewan, one of the pioneers in organic grains some 10 years ago. Today, Farmer Direct has strong growth in many organic products, from typical bread-making wheat to durum wheat, used to make pasta, and malt barley, popular in organic beers. Oats and hemp seed, a high protein source, are also big sellers. As for fenugreek, the plant is both a herb and a spice, often used in pickles and curry powders.

Farmer Direct is certified by Pro-Cert Organic Systems, accredited by the Standards Council of Canada. The co-operative is also launching a domestic fair trade standard to be verified by North American organic certifiers. Freeman cites research stating a significant number of U.S., Canadian and European consumers are interested in food that not only takes into account organic regulations, but also fair labour practices and animal welfare standards.

"Saskatchewan is the hub of organic grain production in North America. One important advantage is that we have the largest concentration of organic grain farmers at more than 1,000 farms and more than 1,000,000 acres."

Farmer Direct met EDC through its membership in the Saskatchewan Trade and Export Partnership, with whom EDC has participated in many activities. "Right when we formed our cooperative, we needed a risk management strategy – the biggest risk in the grain trade is not getting paid. We certainly wouldn't be growing as quickly as we are without EDC," says Freeman. "Out of everything the government has done for farmers, I believe that EDC offers the most practical and necessary services."

www.farmerdirect.coop

CE Composites Baseball Inc. *Ottawa, Ontario*

CE Composites Baseball is striking it big in America's national sport, specifically in the growing market for high-tech baseball bats. Branded *Combat*, the "Best Damn Bats," these powerful hitters are made of composites that are lighter and stronger than traditional wood or aluminum and hit the ball farther. The materials are combined for different strengths and stiffness, depending on the type of player and game. From slowpitch softball to hardball, from seniors to semi-pros, everyone has different performance needs.

"We make 500 bats a day and well over 90 per cent go to the United States. We also export to Australia, New Zealand, the United Kingdom and Belgium," says President and Founder Terry Sutherland.

The bats are manufactured using patented technology. Sutherland, an engineer and former executive with GE Canada, first used composites to make the Canadarm of space-shuttle fame. In 1998, he started making composite bats for other firms, later developing the *Combat* brand. "The composite structures used in bats are more demanding than in aerospace products, because a ball hitting a bat can exert up to 10,000 pounds of force," explains Sutherland.

Over the past three years, CE Composites has experienced 30 per cent annual growth on average, with sales expected to reach up to $8 million this year. Now that the company has embarked on retail sales, replacing direct marketing and e-commerce, Sutherland predicts results exceeding $20 million in the next three years.

"We have both technology and cost leadership; our biggest challenge is funding our growth. With EDC's receivables insurance, we were able to extend our bank line of credit. Now, if we want to play in the retail game, we need to be able to offer our customers even longer financing terms and to explore new financing options," says Sutherland.

CE Composites' bats have won many accolades, recently bringing home the People's Choice Award for best new composite product of the American Composites Manufacturers Association. The bats are also used by top players on the U.S. Olympic softball team.

www.combatbaseball.com

Photo: Courtesy of Combat Baseball Inc

▲ Combat bats provide more swing and less sting for players of all strengths and abilities.

▼ Scene from Fatkat's Skunk-Fu

Photo: Courtesy of Fatkat Animation Studios

Fatkat Animation Studios *Miramichi, New Brunswick*

Ever since cats and mice have been at each others' animated throats, cartoons with animals caught in wild adventures have been popular among children – and adults – around the world. Miramichi's Fatkat Animation Studios is creating some of today's coolest cartoon chaos for big networks in the United States and Canada with programs such as *Happy Tree Friends* - cuddly critters whose adventures always create mayhem.

And with millions of Internet hits every month, the show has attracted quite a cult following.

"EDC was extremely helpful in securing the *Happy Tree Friends* deal which put us on the map," says Fatkat's President Gene Fowler. "Dozens of studios were bidding on it. It was monumental."

The cartoon's originator, Mondo Media of San Francisco, was looking for a partner in 2005, one that could also finance the cartoon production. Fowler notes that his bank, RBC, would only lend the money for the show's production when Fatkat's receivables were insured by EDC. "After this gig, people started to know us as a major player."

Fatkat now has sales in the millions, mostly to the United States. Many programs are then distributed to countries in Europe and beyond. Some 70 per cent of Fatkat's production is destined for the entertainment industry, with 30 per cent commercial use, in advertising or corporate productions.

Fowler founded Fatkat in 2000 when layoffs were imminent at the animation studio where he worked. His firm then merged with a U.S. company producing training films, and became one of Canada's largest flash animation studios. When the Canadian operation was shut down, Fowler revived the Fatkat name. In 2003, four successful animated pilots for the CBC's show ZeD helped his business take off again.

Fatkat is still known for its flash animation on programs such as *Chaotic* for Teletoon, based on characters in a popular trading card game. The company has several new shows in production for various companies, including *Super Normal* about a typical teen turned superhero and *Skunk-Fu* – combining a skunk, kung-fu and trouble.

www.Fatkatanimation.com

Canada and the World's

Canadian miners have been wresting minerals from the earth for nearly two centuries, and have made this country a leading producer of iron, uranium, gold, nickel, magnesium, aluminum, zinc and many other important elements.


Barrick in Veladero, Argentina

Mining Industry

BY DENNIS AND SANDI JONES

Canada's mining sector, however, isn't simply a group of corporations that take minerals from the ground. It's really a cluster of industries, with the extraction firms at the centre of the cluster, with other companies feeding into them. Among these are engineering and construction firms; equipment suppliers and manufacturers; exploration and consulting companies; drilling companies; legal firms specializing in resource extraction; and a whole range of peripheral businesses such as instrument producers and surveying companies.

These companies, which employ nearly 400,000 Canadians, make a large contribution to Canada's wealth. In 2006 the revenues of the mining, extraction and smelting subsectors alone were about $60 billion; equally important, in terms of the industry's overall economic performance, is that it stimulates billions of dollars in additional economic activity in the mining equipment and services subsectors. The sector exports 80 per cent of its production every year, accounting for 14 per cent by value of all Canadian exports, and its logistics requirements generate a large proportion of Canadian port volume and rail-freight revenues.

The importance of the mining sector extends beyond its economic benefits. Mineral extraction impacts the environment and the communities where resources are found, and mining companies must address these impacts through their policies and practices. But whether these impacts are addressed well varies from one company to another and from one country to another. The challenge of engaging in responsible mining practices is complex, and companies that do it well make considerable investments of time and resources to develop sound environmental and social impact policies and practices that meet international standards.

According to Paul Stothart, Vice-President of Economic Affairs at the Mining Association of Canada (MAC), Canada is among the leaders of the world's mining sector. "In 2005," he points out, "about 19 per cent of the total global spending on mining exploration was for exploration within Canada's borders, well ahead of Australia at 13 per cent and the United States at 8 per cent. On the international side, more than 800 Canadian exploration companies are operating outside Canada, and 62 per cent of the world's exploration companies are Canadian. Canada also has about $50 billion of direct investment in the mining sector abroad, making it our second-largest FDI sector after financial services. Toronto, in fact, is the world headquarters for mining finance; in 2005, more than 40 per cent of the industry's global financing was raised through the Toronto Stock Exchange."

Jon Baird, Managing Director of the Canadian Association of Mining Equipment and Services for Export (CAMESE), also emphasizes our pre-eminence in the sector. "Canada has always been so active in mining that you might call us 'the global miner,'" he observes. "Mining has been a transnational industry since the 1960s. But the big changes of the last decade have been the much-increased fluidity with which capital moves around the world, and the improvements in the risk-reward ratio for mining investment in many countries. These changes have made the markets for Canadian mining companies significantly more available, and when they invest in a country, Canadian suppliers of mining equipment and services can follow them."

The current high level of activity is likely to continue in the near term, even though mining, like all resource industries, is cyclical and tends to swing in 10-year cycles. Currently, however, the sector is being driven by rapid urbanization in the developing world, which may lead to a sustained period of high commodity prices and profitability. A similar long cycle occurred after World War II, when Europe was rebuilt and the North American economy expanded at an unprecedented pace.

A tradition of expertise

Canada has been a mining country for a long time, and has a wealth of experience in exploration, design, engineering and development. Canadian companies are also unsurpassed at operating mining projects in unforgiving climates and terrains, and are very good at working through the regulatory and approval processes of their host countries. "Moreover," adds Stothart, "we have a history of being sensitive to indigenous Canadian issues and working with Aboriginal communities. This domestic expertise, which the industry has built up over the past century, helps adapt to similar situations in other countries."

If the extraction side of the mining cluster has its particular strengths, so too does the subsector that provides its equipment and supplies. "Mining companies have to remain competitive especially when commodity prices are low," says Baird, "so they're always interested in increasing their productivity and efficiency. This translates into requirements for better equipment and technology, which our mining suppliers then develop and provide. As a result, you can buy excellent Canadian mining products and technology for just about anything, whether it's exploration, underground or surface mining, mineral processing, smelting, refining, bulk material handling or environmental protection."

In a larger perspective, the sheer economic strength of the industry is crucial to Canada's well-being. As Gary Nash, former Assistant Deputy Minister

for Natural Resources, Canada's Minerals and Metals Sector points out, "For every dollar a Canadian mining company invests abroad, Canada earns at least two dollars in other exports, which makes the industry a very strategic one. Internationally it's one of the most widely known sectors of the Canadian economy, and many countries such as China, Russia, Brazil and the United States have signed bilateral agreements with us because of it."

A good example of these Canadian strengths is Barrick Gold. Barrick has been in operation for 23 years and has grown from a small domestic corporation to a global giant with 26 mines on four continents. It is now the world's largest gold mining company in terms of production reserves and market capitalization, and its success reflects the unique capabilities of Canada's mining sector.

"We have the breadth and scale to build mines that are very capital-intensive," says Jamie Sokalsky, Barrick's Executive Vice-President and Chief Financial Officer. "Barrick's balance sheet is the industry's strongest, and we're experienced in dealing with governments and communities to obtain permits for mines. Another strength is our focus on corporate social responsibility; we have a reputation for helping our host countries, not only economically but also with fundamental needs such as infrastructure, schooling and health care."

Receding reserves

Healthy though it is, the Canadian mining industry is facing one particularly formidable challenge: our proven and probable reserves of copper, zinc, nickel, lead, silver and other essential minerals have declined in recent years. Since Canada's mining expertise is based on having adequate reserves to drive every part of the industry, from R&D to refining, failure to reverse this decline could call the sector's long-term future into question.

The deposits are almost certainly out there; it's just that we don't know where they are. "This," says Stothart, "is partly because the 1990s were a poor decade for base-metal mining, and low commodity prices caused a decline in our domestic exploration for minerals. There's also an ongoing problem with mapping; companies need accurate, modern geological maps for their exploration work, and governments need to supply this basic infrastructure if they're going to attract mining investment and exploration."

During the past 15 years, however, federal and provincial government spending on mapping has fallen by half; in Nunavut, for example, more than 70 per cent of the land area has no adequate geological maps. Still, Canada has a proven means to correct the situation: the Canadian government, through the agency of the Geological Survey of Canada (GSC), has been in the geological mapping business since 1842, and this work has contributed enormously to Canadian ascendancy in the field.

In the view of MAC, increasing the level

CORPORACION NACIONAL DEL COBRE DE CHILE (CODELCO)

Chile's Codelco is the world's biggest producer of copper and has about 20 per cent of the world's total copper reserves. In 2006, the company began an international bidding process to find top-quality suppliers of mining equipment and services, and asked EDC to help them meet with Canadian companies that could satisfy their requirements.

EDC arranged an eight-day Canadian tour for Patricio Mac-Niven Silva, Codelco's Corporate Supply Manager, and Alvaro Vilaplana, the Vice-President of Major Contracts. During their visit in December 2006, the two Codelco representatives met with more than 150 Canadian companies specializing in power generation, environmental engineering, water treatment, pollution control and sulphur reduction.

Why does Codelco, which could supply its needs from several countries, prefer to obtain its equipment, supplies and services from Canada? "We look for the best suppliers in the market," says Mac-Niven Silva. "We've had a long relationship with Canadian mining supply companies, and we know that they give excellent service. Our current need is to develop 500 megawatts of additional electrical capacity for our operations, and we're starting the bidding process with Canada because we know that Canada is very strong in energy."

Photo: © REUTERS/Victor Ruiz Caballero

▲ Workers in the Andina mine in central Chile.

Codelco is also looking for a range of other equipment and technologies. "We're evaluating grinding equipment," says Vilaplana, "as well as engineering and maintenance services. We're also very interested in Canadian technology for industrial cleanup and mine waste management. In Chile we have many types of environmental problems where Canada has experience, and it's to our advantage to acquire Canadian expertise rather than spend time and effort to develop these technologies domestically."

EDC has helped nurture the relationship between Codelco and Canada's mining sector, notes Vilaplana. "They activated their network for us so we could get in touch with all the major Canadian mining companies, and I'm not sure we could have delivered our message so well without their help. EDC is our major intermediary with Canadian suppliers, and that relationship will be of great importance to us in our future procurement strategies."

of government mapping activity is an excellent way to encourage domestic mineral exploration. Mining companies are adept at finding needles in haystacks, but it helps to know where the haystacks are most likely to be. Broader tax definitions would also encourage more exploration in areas with the highest odds of finding minerals and, when deposits are found, it would help a great deal if the project approval process were less cumbersome. MAC is currently discussing these issues with the federal government, and Stothart is hopeful that they can be successfully resolved.

Mighty mergers

Another question facing the sector is that of mergers and acquisitions, some of which have led to foreign ownership of large Canadian mining companies. Noranda was merged into Falconbridge and then Switzerland's Xstrata Plc acquired Falconbridge; Brazil's CVRD bought Inco.

In the short term at least, this trend has been beneficial for Canadian mining companies because it has increased their size and their operating capacities. There is also evidence that such investment brings new technologies, ideas and practices to the Canadian industry and allows it to work more effectively within the global mining community. Even so, the long-term result of losing Canadian control of these major companies is hard to foresee and may not always be positive. Encouraging R&D in Canada is essential to the industry's health, for example, but if a corporation's head office is no longer here, will it continue to support R&D in this country?

Or, after a foreign takeover, will the formerly Canadian-owned company continue its former levels of foreign investment? This is a crucial issue, given that Canada earns at least two dollars in exports for every mining dollar it invests abroad. If there is a drop in investments made from Canada, how much will these exports diminish, and what will be the effect of this on Canadian exporters? The long-term impacts may be enormous.

The sector also faces a looming shortage of skilled human resources. Although many potential mining projects are on the horizon, some Canadian educational institutions have cut back their mining programs, and a large proportion of the sector's specialists and technical people will be retiring over the next decade. Labour is an international problem as well; the world level of mining activity is so high that it's becoming hard to find workers for new projects. And it's not only labour that's getting scarce; the scale of development is already leading to shortages of key mining equipment and supplies.

One of the industry's most difficult challenges comes, quite literally, with the territory: Canada's miners operate in some of the most remote and difficult terrain on the planet. Barrick is exclusively a gold company, but its experience is typical for many Canadian mining firms working abroad.

"Unlike most global businesses," says Sokalsky, "we can't set up an operation where it would be most convenient. We have to go where the ore is, which is often in very difficult environments. Many mines are in extremely cold, snowy locations. If the mine is a long way from population centres, you have to transport workers to the site and house them there. If you're working at high altitudes – and Barrick has mines as high as 5,000 metres – you have to rotate employees through them because of the low oxygen levels. The workers themselves have to be trained, and that sometimes brings cultural challenges along with it. Then there's the problem of power; if the mine's in a remote location, you have to bring in your own power lines or depend on portable power. As a result of all this, getting at the mineral you want is a very capital-intensive undertaking. Mines in these environments often cost more than a billion dollars to develop."

Canada and the Extractive Industries Transparency Initiative

In February 2007, Canada announced its official support for the Extractive Industries Transparency Initiative (EITI). The EITI is a multi-stakeholder initiative involving developing country governments, donors, extractive industry companies, civil society groups, investors and international organizations whose intent is to ensure that revenues from extractive industries contribute to sustainable development and poverty reduction. It supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues for the oil, gas, and mining industries.

EDC AND THE MINING INDUSTRY

EDC helps strengthen the mining industry by supporting both exports and foreign direct investment. During 2005, about 13 per cent of EDC's total business volume was accounted for by the mining sector. The key EDC instrument for export support is Accounts Receivable Insurance, which ensures that a Canadian exporter will be paid when a buyer defaults. For supporting foreign direct investment, EDC offers two major tools: Political Risk Insurance (PRI) and project financing.

PRI is used when either lenders or investors are comfortable with the commercial risks of a project, but find the political risks beyond their capacities. PRI will insure either the bank's loan to the project or the mining company's investment, if (for example) a government illegally closes or expropriates a company's mine. When project financing is needed, EDC will often partner with other commercial lenders to help provide the often-substantial financial resources a company needs to undertake a project.

The human environment can sometimes be as difficult as the natural environment. Canadian companies often operate in countries where governmental capacities and the rule of law are not what they are at home, and where operations can be thrown into jeopardy by arbitrary government decisions, unclear application of rules, political instability, social instability, problems with energy supplies and transportation, and sudden changes to regulations, tax structures and royalty regimes. These risks are accepted by Canadian mining companies as part of doing business, however, and they have become very experienced at dealing with such problems.

CSR issues

But the challenge with the highest public profile is undoubtedly that of corporate and social responsibility, or CSR. Mining in general has attracted an increasing amount of government and public scrutiny during the past decades, much of it centred on the effects that mines have on their surroundings. The global industry's record in this regard has not always been good, and in some places it has inflicted severe damage on the natural environment and on human health, safety and social conditions, and human rights.

International financial institutions and export credit agencies (ECA) like EDC can influence the environmental and social practices of the companies whose transactions they facilitate by providing financial risk management services. Thirty-two of the world's export credit agencies have signed on to the OECD's *Common Approaches on Environment and Officially Supported Export Credits*, which assert that these ECAs will apply common international standards to evaluate environmental and social impacts of projects they are asked to support. EDC's legal mandate incorporates a requirement for environmental review of projects with potential negative environmental and social impacts, its *Environmental Review Directive*.

A growing number of private-sector commercial banks are signing on to the Equator Principles which set forth international standards for support for projects with environmental and social impacts. The net impact of these initiatives by ECAs and financial institutions is that mining companies requesting their financial support have to comply with these requirements in order to get it.

Canadian mining companies are acutely aware that they must meet current CSR standards. "In fact," says EDC Chief Environmental Advisor Greg Radford, "the social impacts of mining are now one of the key challenges faced by Canadian mining firms. Coping with the traditional environmental issues can be straightforward, since we now have technologies to deal with effluents and emissions, but the social impacts are often more complicated and can extend far beyond a mine's local footprint to become regional in nature."

These impacts are often very diverse, especially in some developing countries where governance capacity is poor, where there is corruption and in some cases, where there is armed conflict. In these circumstances, human rights protections and enforcement of environmental regulations are often weak or non-existent.

The mine may be in a remote area, but hazardous goods may have to pass through numerous small communities on the way to the site. The mining company may have to relocate people, and its activities may mean that agricultural land must be put to other uses. An influx of new labour can cause major social problems in the existing community. "In effect," says Radford, "a company needs a 'social license' to operate in an area, and its operation will be at risk if it doesn't have that license. There's a need for mining companies to engage early and often with the local communities, so they can gain their buy-in to the mine's presence."

But fostering this level of engagement by all mining companies is not easy, especially considering that more than 1,000 mining companies are listed on Canadian stock exchanges, and these Canadian companies have interests in more than 8,000 exploration and mining properties in more than 100 countries. In March 2007, the final report of the National Roundtables on *CSR and the Canadian Extractive Industry in Developing Countries* – a series of cross-country, multi-stakeholder meetings in 2006 that heard over 156 presentations from civil society, industry and academia, received 104 written submissions and heard from 57 experts – made recommendations to enhance the CSR practices of the Canadian international extractive sector working in developing countries. These recommendations, including a proposed Canadian CSR framework for the sector, will drive progress towards improved CSR performance.

Barrick's successful CSR approaches show what can be done. In 2005, the company spent approximately $7.3 million

HITACHI CONSTRUCTION TRUCK MANUFACTURING

Hitachi Construction Truck Manufacturing, whose plant in Guelph, Ontario builds heavy construction equipment such as dump trucks, excavators, loaders and cranes, is a major supplier of machinery to the international mining industry. It's very active in Zambia, where it's assembling a fleet of trucks and excavators for the Lumwana copper mine; it's also busy in South Africa, Colombia, Indonesia, Thailand and Australia, and in the Canadian tar sands. EDC was involved in financing Hitachi equipment purchases for both the Zambian and Indonesian projects.

"Our equipment accounts for a lot of the costs that mine operators see," says Keith Richardson, Hitachi's Senior Vice-President, Major Accounts. "This is particularly the case with maintenance and replacement costs, and with fuel consumption. The challenge for Hitachi is to stay competitive by providing equipment that gives our customers the lowest costs of operation for the particular sector they're in. Our success is also linked to having an excellent company infrastructure in the customer's region, because mine operators want to know that the machinery they've purchased will be properly supported by the supplier. To do this, we have to make sure the regions where we operate have the repair facilities, parts inventories and trained personnel necessary to maintain the equipment."

This approach paid off in Indonesia, where Hitachi formerly did little business because it lacked a distributor to provide these services. The company has since made a huge infrastructure investment in the country, and as a result of this improved local support, has achieved a much-increased market share. Hitachi intends to extend this infrastructure strategy into other regions where it sees sales potential, including China, the former Soviet Union, Eastern Europe, Latin America and India.

Photo: Courtesy of Hitachi Construction Truck Manufacturing

globally on infrastructure development, including electrical power infrastructure in the region around two of its mines in Tanzania, and schools in the area of its Pierina mine in Peru. At its Veladero mine in Argentina, Barrick is supporting sustainable development programs for regional and local communities, with an emphasis on health care (including the provision of a pediatrics facility), education and economic development.

Globally, the company employs community development staff to work with local community organizations to develop programs tailored to local needs; among these have been HIV/AIDS training programs and nutrition training for new mothers. In 2005, Barrick spent $2 million on global community initiatives.

Markets and modernization

The industry's strongest markets have been in South America, particularly in Chile, Peru and Argentina. However, during the past decade there has been substantial growth in Canadian mining investment elsewhere, with the greatest potential being in countries that don't have Canada's advanced mining technologies. Between now and 2010, for example, the Canadian mining industry will lead about $20 billion worth of investments in African projects alone.

This provides rich opportunities for the entire Canadian mining cluster. In Latin America, investment in mineral exploration and development has been increasing rapidly, not only in the three countries mentioned earlier but also in Brazil and Mexico. Sub-Saharan Africa holds additional prospects, including Zambia, South Africa and Tanzania. India, Russia and China have vast mineral assets and desperately need to modernize their mining industries to raise productivity, increase health and safety, and protect their environments. Canada, with its advanced capabilities in technology, services and equipment, its sophistication in regulatory issues and its highly developed CSR expertise, has a great deal to offer these countries.

Canadian R&D Support

Not all mining research is carried out in company labs. The Canadian Government provides R&D support for the industry through means such as the Mining and Mineral Sciences Laboratories (MMSL), which is part of Natural Resources Canada's CANMET Mineral Technology Branch. Strategic research alliances between CANMET-MMSL and the private sector have brought improvements in mining technology, such as better ways of processing complex ores and better techniques for making low-grade deposits economically viable.

There is no indication, either, that the demand for minerals, equipment and services will soon diminish. Assuming that the world's economic growth and accelerating urbanization continues, the demand for iron, copper, aluminum, zinc and all the other minerals necessary to an industrialized civilization can only increase.

Meeting the demand will sometimes be a risky business. Political risk can be a major problem in countries whose institutions are not as well developed as Canada's, or which may be socially or politically unstable. Financial risks have been aggravated by the rising costs of energy, labour and essential materials such as steel. And then there's the built-in risk that the industry, by its very nature, has always had to accept: the prospect of investing a great deal of money and effort to find a viable deposit, and coming up with nothing.

Experience has taught the Canadian industry how to manage these risks, and the sector's strategic importance to the country means that it receives ongoing support from federal and provincial governments and agencies such as EDC.

"Currently," notes Stothart, "Ottawa is negotiating several foreign investment protection agreements (FIPAs) with other countries. FIPAs can be useful for mining companies because, if they decide to invest a lot of money abroad, having a FIPA in place with the foreign government can help resolve disputes. Canada is now trying to complete FIPAs with China and India, and recently completed one with Peru."

EDC is a major player in risk mitigation for Canadian companies, as Barrick can attest. "The long partnership we've had with EDC," says Sokalsky, "has helped us enter new markets and make investments in countries where it can be very challenging to operate. Having a strong partner like EDC gives us a lot of support when we're confronting political risk, or when we're looking for lending partners to help finance a project."

Forging the future

The trajectory for the world's mining sector is going up. But the competition to secure raw materials is becoming fiercer as demand rises and supply tightens, and this trend will continue. Many new projects must be completed during the next few years, and Canada's mining industry will be crucial to satisfying the world's needs because of its experience and technological capacity. Equally important, many of our companies have forged an international reputation for respecting the social and political objectives of host countries, for providing good employment together with high standards of health and safety, and for ensuring that their mining operations benefit the local societies. And that's a combination that's worth its weight in gold. ■

OUR EXPERTS: For this article, we consulted several experts with a broad range of experience with Canada's mining industry:

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Northstar Trade Finance: Reducing the Risk for Small Business

BY KATHRYN YOUNG

Photo: Courtesy of Sunwell Technologies

▲ Ice slurry machine manufacturer Sunwell Technologies was able to overcome financing challenges for an equipment sale to a Mexican company, through the services of trade finance company Northstar and EDC.

Musicians, politicians and corporate presidents will all share the stage, literally, since a small Canadian exporter sold a mobile stage to a Mexico City company last year using the services of Northstar Trade Finance.

Stéphane Berger, Sales Director of the family-owned Groupe Berger, credits Northstar with putting together the deal that allows their Mexican client, 2Viente, to set up or dismantle the mobile stage in an hour, rather than the three days it used to take when a stage was built on site.

"Without Northstar I don't think 2Viente would have bought a unit," Berger says. "It's much easier for the customer if you come up with the financing."

And Mexican shrimp packers and a Mississippi catfish company are pleased with their purchase of Sunwell Technologies variable-state ice slurry machines. These deals, plus sales of machinery to make plastic film, garage doors, bottle cap liners and drill bits, were all signed because of Northstar, a trade finance company that works with EDC to make small- and medium-sized export deals happen.

"We wouldn't have been able to do some of these deals without Northstar," says Sunwell's Vice-President Simon Goldstein. Mexican shrimp-packing company Manta Bay wanted to buy Sunwell's Deepchill machinery, which helps preserve food three times faster than plain ice.

"The company wasn't able to buy the equipment outright," Goldstein says, "and couldn't finance it without Northstar. They were particularly impressed with Northstar's ability to speak Spanish."

Since 1994, Northstar has financed $1.6 billion worth of deals, ranging from $100,000 to $10 million each, for small- and medium-sized Canadian exporters, with only a few dozen employees and a low-cost budget of its own. It's a niche market within which EDC is happy to have Northstar as a partner.

"Smaller deals are Northstar's bread and butter," says Mike Craig, EDC Small Business Financing Manager. "They're nimble enough to serve that niche quickly and well, so it's very effective for EDC to simply guarantee the deals Northstar manages."

"We do high-risk lending," says Northstar founder and President Scott Shepherd. "It's aggressive. We're testing the boundaries."

The company's roots go back to Shepherd's own frustration trying to find financing for the high-tech company he worked for after leaving EDC.

"We had to come up with financing alternatives," Shepherd says. Just like the exporters he now supports, he found that banks weren't interested in his small deals. "The big boys can step in and carry these small deals on their balance sheet. Everybody listened to them, but not to the small and medium exporters. So I realized that something needed to be done for the small guys."

After much negotiation, perseverance and a second mortgage on his house, he formed partnerships with EDC, the Bank of Montreal, the B.C. and Ontario governments and the federal Western Economic Diversification. Since then, the Ontario government dropped out, but the partnership has added the Royal Bank of Canada, HSBC Bank Canada, National Bank of Canada and Caisse de dépôt et placement du Québec.

"It was a bold experiment, because it hadn't been done before," he says. From a desk comprised of a door on two saw-horses, Shepherd began Northstar in 1994, soon joined by Craig MacKenzie, Northstar Executive Vice-President of Sales and Marketing. Their first loan was in Norway, followed by Chile and New Zealand, but Latin American markets developed rapidly and remain their most important region, although their largest single customer is now in China.

"As trade flows, we followed the

NORTHSTAR'S COMMUNITY INVESTMENTS

Northstar's involvement in emerging markets extends beyond export deals. They support foster children for families in Africa, South America and Asia. Every employee is paired with a foster child who receives financial support and with whom they have regular contact. The company also funds two university fellowships and a bursary for international business students, has supported a Ghanian girls' orphanage and this year will support a school in Cambodia.

Over the past six years, Northstar has also invested in a microlending program in Uganda and Rwanda. "We have some gut-wrenching stories of success," Shepherd says, describing one 14-year-old boy who borrowed $25 to set up a lunch stall. That was so successful, he set up a place for himself to live, then a small hotel.

"These are not distractions – it's part of who Northstar is," Shepherd says.

exporters," says MacKenzie. Eastern Europe is opening up, and they're actively pursuing transactions in Russia.

Northstar signs 50 to 60 deals a year, which in 2006 were worth nearly USD 50 million. For 2007, they are aiming for USD 70 million.

Canadian exporters often lose deals when their customers can't get financing in their own country. But through Northstar, their buyer can work out a loan to buy the capital equipment, usually in the medium term of two to five years. The loan is secured by a registered lien and insured by EDC.

"Definitely, they help us close the deal," says Mete Gonder, President of Gonderflex which sells printing presses that make labels, stickers, cartons and flexible packaging.

"Typically, customers ask us for extended terms or to spread out payments, and we'd prefer not to take that risk," explains Leela Hardat, Vice-President of Montreal-based Techmire which sells die-cast machinery with deals in the $150,000 to $300,000 range. Now, Techmire leaves that risk up to Northstar. "We get our money up front," she says. "We ship and we get paid."

With offices in Vancouver, Calgary, Montreal and Toronto, Northstar handles about 40 exporters a year, most of them repeat customers.

Here's how the relationship with EDC works: a memorandum of understanding draws the boundaries – Northstar handles most deals worth $100,000 to $5 million; between $5 and $10 million, the two discuss who will offer financing, depending on growth and potential for repeat business.

"We're confident in their controls and due diligence and their financial and analytical capabilities," Craig explains. "We believe that what they're doing is reasonable and satisfactory risk. From that we're prepared to offer our guarantee and in exchange they do much of the work and monitoring and ensure that smaller deals get done."

Their staff is multilingual, reducing translation costs. They also hire retired bankers who act as mentors and boost the company's overall experience. But it's the language advantage that many exporters praise.

"I like the fact that they've got Spanish-speaking people, because we're doing deals in Mexico and South America," says Goldstein. "And because they're private, they're a bit more aggressive with day-to-day business, making things happen."

Northstar operates like exporters do – travelling extensively to meet customers, says Jeff K. Carson, International Sales Manager for Toronto's Samco Machinery that has built roll-forming equipment for 35 years.

"They're willing to get on a plane and go down and actually establish a relationship with our customers," Carson says. "The customer's comfort level comes way up when they can deal face to face."

Northstar can also give Canadian exporters an edge over competitors in markets like Russia and China, where it takes time just to understand the legal system.

"They do their homework, they know these countries," says Mirek Planeta, President of Macro Engineering which sells machinery that makes plastic film. "They hire people who understand the systems, how the country operates. That's the key to everything."

One of Northstar's major advantages is non-recourse. If a deal goes bad, Northstar and/or EDC go after the delinquent's money. It's not the exporter's problem.

"We hold the exporters' hand," says MacKenzie. "We do the analysis and the registrations in foreign countries." Essentially, Northstar eliminates their post-shipment financial risk. "There should be no additional cost if you structure it properly."

▼ Northstar takes on small, high-risk deals that banks might turn away, to help small businesses such as Toronto-based Samco Machinery and others make export sales to markets around the world.

India's Accelerating

◀ Industry experts are predicting that the eight million or so Indians who buy motorcycles every year will soon be buying cars, creating many opportunities for Canadian autoparts suppliers. Pictured here: An engineer works on cars lined up at Tata Motors Ltd.'s plant near Pune, southeast of Mumbai.

Auto Sector

BY PETER DIEKMEYER

Canadian auto parts suppliers are facing stagnating North American, European and Japanese markets. For growth, many are turning to fast-growing Asian markets, like India, where domestic players such as Tata Motors are seeking partners.

Like many businessmen who frequent Delhi, Mumbai and other Indian cities, Prasen Agali is constantly amazed by the massive number of motorcycles that buzz in and out of traffic. Not surprisingly, the country produces more than any other except China. But while some may regard the swarms of motorcyclists as a dangerous nuisance, Agali sees them as a potential opportunity.

Agali is Country Head of Canadian auto parts giant Magna's India operations. He expects that the eight million or so Indians who buy motorcycles each year will soon buy cars instead. In fact, annual car demand in the Asia-Pacific region is expected to double to 17 million vehicles within the next 10 years.

"This is the right time for Canadian car parts companies to establish a presence in India," says Agali. "It is an emerging market so it's not surprising that motorcycles, which are cheaper to run, sell so well. But living standards have been rising rapidly and we are seeing an increasing number of cars in those swarms of motorcycles."

India's economy is changing quickly. India has been growing in excess of 8 per cent per year for the past three years, and the outlook for 2007 is for only a modest slowdown, to about 7.5 per cent. Furthermore, productivity has been rising rapidly and about 130 million people will enter its workforce during the next six years. That means India's growth may persist for some time.

A growing middle class wants wheels

The strong economy is pushing increasing numbers of Indians into the country's middle class, which experts variously peg at somewhere between 300 and 450 million consumers. Although per capita income among India's middle class is still not yet up to Western levels, whichever number you use, many more Indians now have the means to acquire a new car.

According to the Society of Indian Automobile Manufacturers, passenger vehicle production by local players such as Tata Motors, Mahindra & Mahindra, Maruti Udyog and Hindustan Motors shot up from 669,000 in 2001–2002, to 1.31 million during 2005 – 2006. Agali expects that number to hit 2 million within two years.

One tangible indication of how much car sales could increase during the coming years comes from Indian two- or three- wheeled motorcycle production, which last year stood at close to 8 million. Passenger car stock in India remains low, at 8 per 1,000 people, compared to 235 in Taiwan.

Exports are another key factor driving growth. In fact, domestic Indian automobile manufacturers are increasingly realizing their potential as regional, and in some cases, global players.

Earlier this year, India's Ministry of Heavy Industries and Public Enterprises released a 10-year Automotive Mission Plan (AMP) to transform the country into an automotive manufacturing and design hub. Between now and 2016, sector growth is expected to provide employment to 25 million new workers and boost production six-fold to $145 billion a year.

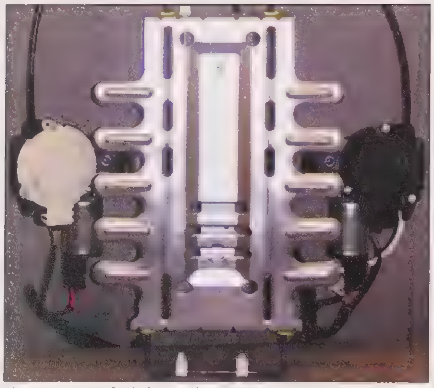

Photo: Courtesy of Schukra Lumbar Systems

Schukra Lumbar Systems, a division of Leggett & Platt Automotive Group, recently invested in a manufacturing factory in Chennai, India.

Photo: Courtesy of Magna

Canadian auto parts giant Magna is looking to India to grow their export sales to offset the recent struggles seen in the North American auto industry

Manufacturers want in

Agali is convinced that Magna can get a piece of that action. To do so, the company has been taking an incremental approach, investing gradually in smaller ventures and seeking out new opportunities as they arise. For example, Magna has invested in a sales and engineering office in Mumbai, a mirror manufacturing facility and a two-piece flexplate assemblies plant. Agali says these are small initial steps and the company will undertake more initiatives as opportunities arise.

According to Peter Nesbitt, EDC's Chief Representative in India, Magna isn't the only Canadian auto parts company that is looking at the sub-continent for growth. Canadian automotive exports to India were a modest $2 million during 2005, but that could change, said Nesbitt.

Canadian automotive industry manufacturers have had a rough go of it lately. During 2006 exports slumped 6 per cent in value, due to falling parts prices and the stronger Canadian dollar. The ongoing struggles of the big three North American automakers are also a significant worry for parts and component manufacturers. In fact, compared to growing demand in Asia, western automotive markets look pretty grim.

"The auto industry has pretty much hit a plateau in North America, Western Europe and Japan," says Nesbitt. "If auto parts companies want to continue to grow, they are going to have to diversify their customer base. That will mean developing a presence in emerging markets either alone or in joint ventures."

Recently, Nesbitt has helped an increasing number of auto parts companies who are staking out opportunities in India. He sees the sector's interest as part of an overall trend among businesses who are rushing to get in on the ground floor of the sub-continent's growth.

"In 2006 we did more overall loan financing in India than we did in the rest of Asia combined," said Nesbitt. "However, the auto sector there is building on a small base and there is a lot of room for growth."

Murray Jans, president of M.A. Jans & Associates, who has been working on India-related automotive trade initiatives since 1998, agrees. "Canadian auto parts manufacturers have a lot to offer India in areas ranging from advanced materials, design engineering, metal processing and ICT skills to lean manufacturing techniques," said Jans. "But until recently, many parts companies appeared to have little incentive to move, due to their comfortable positions in NAFTA, which is the world's largest car market."

Comparisons between India and China

Much of Canadian auto parts manufacturers' interest in India stems from a desire to replicate the successes they have had in China. Both Magna and Leggett & Platt Automotive Group have made inroads into the Chinese automotive sector and their executives have noted many similarities between the two markets.

Both Asian countries have more than a billion people, as well as economies which have undergone substantial deregulation and which are lifting millions out of poverty each year. That said, according to Peter Hoehne, Leggett & Platt's Vice President Sales and Marketing Worldwide, there are some key differences. "China is growing faster and has broader auto demand," says Hoehne. "They are benefiting from a growing mid-size and luxury car segment. India is focusing more on smaller cars."

India has been surprisingly innovative in its small car development. For example, Tata Motors, which has been in the business for less than a decade, is currently developing what it calls a "one lakh car," which is slated to be manufactured in the West Bengali Kolkata region.

Photo: Courtesy of Husky Injection Molding Systems

▲ Canadian company Husky Injection Molding Systems has set up a local Indian affiliate for closer supply access.

The car gets its name because Tata had hoped it would retail for one lakh (one lakh is 100,000 rupees, equivalent to about USD 2,272). That has proven to be overly optimistic. According to the *Economist* magazine, Tata, which currently makes cars that sell for about USD 5,000, will eventually market the new vehicle for about USD 3,000.

According to Hari Prakash, Country Head of Husky Injection Molding Systems India operations, a Canadian company which is working closely with Tata, the one lakh plan "would drive most two-wheeler buyers to move into the four-wheeler segment."

That said, China is about 10 years ahead of India, having initiated its initial economic reforms in 1979, whereas India's were launched in 1991. The upshot is that auto sector players moving into the Indian market may have more upside potential than they would in China.

Foreign investment to play a big role

India's domestic players are not expected to meet its automotive industry's growth plans by themselves. In order to implement its AMP, India would need to attract an additional USD 35 to 40 billion of new investment during the next 10 years.

Indian officials recognize that much of China's growth has been the result of an immense flow of foreign capital and they hope to repeat the trick. So far, their success has been limited but is increasing: foreign investment into India grew by 12 per cent annually for five years, before hitting 43 per cent in 2006.

Much of that relative weakness is related to continuing growth obstacles that face companies that invest in India. India's most obvious constraint is basic infrastructure – water, waste treatment, energy and transportation. India ranks low in many of these basic competitiveness ingredients. Major economies spend 5 to 7 per cent of their GDP each year on infrastructure, whereas India spends around 1 per cent per year.

The AMP proposes a variety of measures designed to make India a more attractive place to do business. These include tariff policy adjustments, tax holidays, support for R&D and various labour reforms.

Photo © Dinodia Images/Alamy

▲ Large shopping malls, such as this one in Mumbai, are indicative of a growing Indian middle class.

Given the Indian auto market's huge growth potential, it's not surprising that many key international players have already made significant investments; General Motors, Ford, BMW, Daimler Chrysler AG, Renaud, Toyota, Honda and Hyundai, to name a few. And if the AMP's recommendations are implemented that list is likely to grow.

Ground floor opportunities

Because India's automobile industry is still in the early stages of what is widely expected to be explosive growth, and investments there are still far lower than in China, the early birds will benefit from significant ground floor opportunities.

Growing India's USD 14 billion auto parts sector is an important Automotive Mission Plan goal. Domestic demand will be a key driver, but parts exports, which have shot up rapidly during the last five years, are also seen as a big opportunity. Like many sectors, India's auto industry is concentrated in regional clusters, made up of key supply chain players. These are located throughout the country including Indore in central India, Manersar in Northern India, Pune in the West, Chennai in the South and Kolkata in the East.

That said, though the opportunities are widespread, targeting them is not easy.

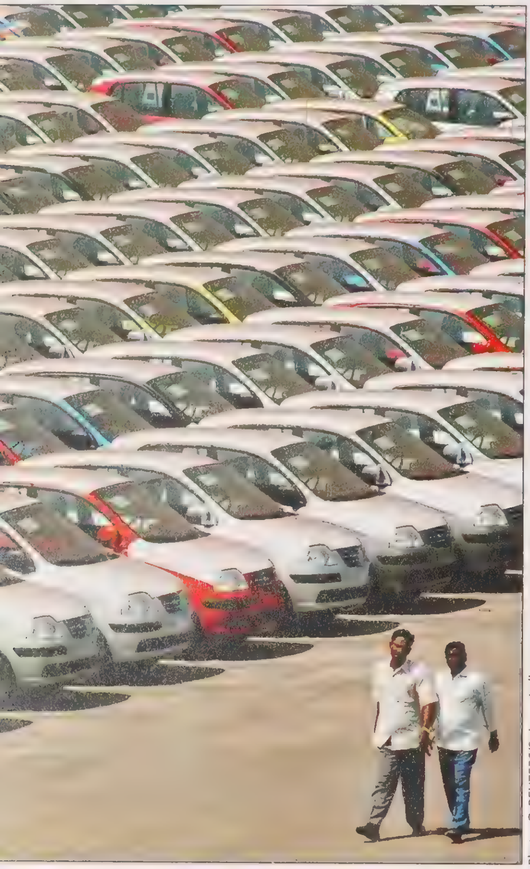

Photo: © REUTERS/Stringer India

Indian automotive production is higher than many other sectors of the economy, with potential for further improvement.

Many Canadian **parts suppliers** are trying to get a **foothold** in India by first opening up manufacturing facilities that produce products for export.

India benefits from a low-cost labour force and has an excellent pool of qualified engineers. That means Canadian parts manufacturers cannot assume instant efficiency gains. They need to prove they can add value to Indian auto industry supply chains.

Leveraging western advantages

One advantage that Canadian parts manufacturers bring to the table is their expertise in auto industry global "best practices." For example, safety standards tend to be higher in Western countries than in Asia. Many Canadian parts suppliers are trying to get a foothold in India by first opening up manufacturing facilities that produce products for export, as a first step toward developing the country's domestic markets later on. It's an interesting strategy with plenty of potential. Canadian auto parts firms already export a big percentage of their output and thus can add considerable value to these initiatives.

Leggett & Platt Automotive Group is one such company – they recently invested in a factory in Chennai that will manufacture lumbar supports for seating, cables and flex mats, much of which will be destined for Europe. "It's one of the best ways to get involved in the India market," said Hoehne. "There are so many things to learn about doing business there; how to set up operations, regulatory structures, managing a workforce and so on. If you begin operations with a set export market, when you start to land local contracts, with larger production runs, you'll be ready."

Leggett & Platt Automotive Group operates five plants in China, so the company already has extensive experience in large emerging markets. Hoehne advises new investors in the Indian market to at least initially pair themselves in joint ventures with local partners.

India's auto component industry includes 500 firms in the organized sector coupled with about 10,000 smaller, non-unionized firms. Many of these companies lack financing, technical knowledge and marketing expertise, which are precisely the value that many Canadian parts firms bring to the table.

"Partnerships with local players bring key advantages," said Hoehne. "They will know the ins and outs and can help you operate efficiently in a new environment. You may know your business. But they will know how to mesh your strengths with the local economy."

Joining the global supply chains

In addition to the export support that EDC traditionally provides through its trade finance and risk management solutions as well as its market intelligence, EDC is also helping Canadian players to invest overseas so that they can become a part of global supply chains. "Foreign investment is essential to Canada's ongoing success at international trade," says Nesbitt. "As a result, we are constantly adapting our products and services to support it."

"If we help a Canadian company to build their presence in overseas markets, the benefits often come right back to Canada," says Nesbitt. "For example, many automotive industry players are increasingly implementing global purchasing policies. That means if a parts company wants to supply its customers in North America, it needs to be able to also supply them in Europe and Asia."

Magna's Agali agrees. "Many of our customers have plans that are global in nature and we need to follow them," said Agali, noting EDC's support in its India initiatives. "We have a very close relationship with EDC, which so far has led to exchanges of information and cooperation in seeking out new opportunities."

EDC is working with local buyers and borrowers within emerging markets who are the customers of Canadian suppliers, to provide financial tools that encourage procurement and partnering

INDIA'S AUTO SECTOR IN NUMBERS

Motor vehicle production*	2004-05	2005-06
CVs	350,000	390,000
Passenger vehicles	1,210,000	1,310,000
Two-wheelers	6,530,000	7,600,000
Three-wheelers	370,000	430,000
Total	**8,460,000**	**9,730,000**

* Society of Indian Automobile Manufacturers

with Canadian firms and their subsidiaries. For example, under a financing arrangement with Tata Motors, EDC took a $20 million position in a $60 million syndication loan refinancing for a Tata subsidiary, to fund the purchase of INCAT International. The agreement included Tata's commitment to consider purchases from Canadian suppliers.

"Tata Motors is very much in expansion phase," says Alison Nankivell, until recently a financing manager with EDC's transportation sector team.

"They have huge opportunities in the coming years. They are creating new platforms on which new cars such as the one lakh initiative will be based and they will need new tooling, new technologies and new suppliers."

For Canadians parts companies, that means setting up shop locally. Indian automakers, like those in many advanced markets, work on a just-in-time basis and want close supplier access. Another beneficiary of the Tata financing arrangement was the Indian affiliate of Husky Injection Molding Systems, which late last year announced the $1.1 million sale of an injection moulding machine to Tata, a deal that EDC will finance.


Photo: © REUTERS/Parth Sanyal

▲ Additional opportunities exist for Canadian suppliers in the development of India's road infrastructure.

Challenges of India's parts industry

Despite the vast opportunities offered by the Indian market, there are challenges too. India is a vastly diverse economy comprised of 28 states and 18 official languages. Though economic growth has been strong, average per capita income remains low. That means investors there need a long-term horizon.

According to a Global Competitiveness Survey of 104 countries, India ranked 43rd, behind regional rivals such as Hong Kong, China and Singapore, though the Indian government's Automotive Mission Plan intends to remedy that.

Furthermore, Indian automotive industry productivity is substantially higher than that of other sectors of the economy and it has huge potential for further improvement. According to Magna's Agali, India has considerable core strengths beyond its strong economy that make it an attractive potential market and investment destination.

"English is one of the two national languages and is spoken by almost all of the business and government officials that you are likely to come into contact with. India also benefits from a solid and well-entrenched legal system," says Agali.

Getting a foothold in the Indian automotive industry is not easy, but the opportunities make it worth the investment for Canadian parts companies, as India's economic growth continues, and auto production accelerates.

The most visible sign of increased opportunity will be the further development of India's road infrastructure. "China's investments in its streets, highway system and other local road networks were the key to their auto industry's rapid growth," says Agali. "If a country wants a car industry it needs roads for those cars to travel on. Road building resulted in rapid growth not just in China's auto sector, but also in its overall economy as well. That could happen in India too."

That said, India's potential is so promising that Agali and Magna continue to aggressively scout out new deals. And while the old expression says that potential is a fancy word for "ain't done nothin' yet," in India's case, the signs point to that potential being realized sooner rather than later. ■

OUR EXPERTS: For this article, we consulted several experts with a broad range of experience related to Canada's auto parts industry and its efforts in India. They are:

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Pakistan's Preference for Canada

BY KATHRYN YOUNG

▲ Since sanctions were lifted in 2004, the Canadian-Pakistani relationship has grown considerably and doing business is relatively easy for Canadians.

During recent negotiations for a Canada-Pakistan hydropower deal, EDC's Anis Karim met with 10 high-level government officials in the South Asian country. All had a personal link with Canada through family, dual citizenship or education.

"All of them are already pre-disposed to doing business with Canada," recalls Karim, EDC's Regional Manager for South Asia. The officials included a Ph.D. from the University of Alberta, an MBA from McGill, an MBA and a Ph.D. from Concordia. "Canada has huge brand equity in Pakistan in the government and private sector," adds Marvin Hough, EDC's Regional Vice-President for Asia who participated in an Ontario-led business mission to India and Pakistan in January.

Karim, who has travelled to Pakistan several times annually in recent years, says the officials wanted Canadian participation. "It was a very easy sell from that perspective."

Pakistan is eager for deals with Canadian businesses and, with the government hastening the privatization of public sector assets and relaxing foreign investment rules, particularly in the sectors of information and communications technology, transportation, power and oil and gas. Meanwhile, EDC is negotiating a risk- sharing arrangement with three Pakistani banks and promoting business with the nation of 166 million people.

Last year, EDC supported 30 Canadian exporters and foreign investors in Pakistan, including Nortel Networks, Gen X Trading, CEL Aerospace Test Equipment and Universal Paper Export. Karim sees no reason why that number couldn't double to 60 by 2008.

But misconceptions about Pakistan often prevent Canadians from pursuing business there. A senior Canadian executive once asked Karim whether people of European descent could walk freely in the streets.

"You can walk in the streets," Claudio Vissa says with assurance. Vissa is Vice-President of RSW International, a Montreal engineering consultancy firm that worked in Pakistan years ago and is now pursuing business there again.

"It's a market that is moving for the first time in many years," Vissa says. "It's like India 10 years ago. I see a lot of momentum that wasn't there before."

Which is not to deny that Pakistan has its problems. Business dealings proceed more slowly than in Canada (although quickly by Asian standards) and it's harder to assess risk in emerging markets such as Pakistan. But those with experience say

Pakistan's business people are highly educated, engineering quality is high, and there's less bureaucratic red tape and fewer hoops to jump through.

"Pakistan is one of the best places to do business in Asia," says Vissa, who also works in India, Vietnam, China and Laos.

Politics have always been a weakness, with serious security issues in the north and border areas, and at least four assassination attempts on the president, General Pervez Musharraf. Musharraf, chief of the armed forces, came to power in a military takeover in 1999 and allied Pakistan with the United States in its War on Terror, avoiding hostile U.S. military intervention and opening the door to aid flow, debt rescheduling and forgiveness, says Andrew Bennett, EDC's political risk analyst for South and Southeast Asia.

"Musharraf is expected to be 're-elected' president later in 2007, although there will be no direct, democratic presidential election," Bennett says. "This situation has been heavily criticized by U.S. President Bush. Pakistan's former presidents Benazir Bhutto and Nawaz Sharif, both in exile, have joined forces in a pact to restore democracy, but there's little evidence Musharraf is paying attention."

Canadians have been doing business in Pakistan since the 1960s, in major hydroelectric projects, dams and other infrastructure. After Pakistan's 1998 nuclear testing, the economy nose-dived when major Western nations declared economic sanctions. But since Canada ended sanctions in 2004, the Canada-Pakistan relationship has blossomed. Even the 2005 earthquake had less impact on the economy than expected.

EDC forecasts the Pakistani economy will grow by six per cent in fiscal 2007, led by large-scale manufacturing and the financial and telecom service sectors. Inflation is expected to remain at seven per cent and foreign direct investment has increased significantly. Last year, the government issued 10-year and 30-year bonds that were oversubscribed on the international capital market.

"This was a litmus test," Karim says. "The international markets and the international lenders and investors are reacting fairly positively."

Photo: © REUTERS/Mian Khursheed

▲ The Pakistani economy is predicted to grow by six per cent in 2007 led primarily by large-scale manufacturing and telecom sectors.

EDC-backed deals in Pakistan increased from $23 million in 2003 to $49 million in 2004, followed by a brief drop to $23 million in 2005, while EDC refocused its plan for Pakistan. But in 2006, deals rose to an impressive $60 million, for a range of Canadian goods and services including industrial machinery, power transmission and generation equipment, gas compression systems and equipment related to the oil and gas industry, telecom equipment and agri-food.

The World Bank's Ease of Doing Business ranking puts Pakistan at 74 out of 175 countries, taking into account factors such as starting and closing a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders and enforcing contracts. Corporate tax rates have fallen from 39 per cent in 2004 to 35 per cent last year, while customs reforms have reduced import times from 39 to 15 days, and export times from 33 to 24 days.

EDC is promoting opportunities for Canadian companies of all sizes in the following sectors:

- Pakistan's **telecom/ICT sector** is the fastest growing in Asia and the third fastest in the world, with 45 per cent of people having access to fixed or mobile phones. Information and Communications Technology is booming, along with wireless, local loop, satellite communication, and data transmission. The deals are happening now for Canadian businesses that are ready to take advantage of them.
- In **oil and gas**, Canadian companies are exploring, investing directly and engaging in joint ventures with Pakistani companies in gas field development; drilling, producing and selling gas; transportation, distribution and equipment supply for Liquefied Petroleum Gas and Liquefied Natural Gas; supplying compressors and dispensers, rigs and drilling supply, gas pipelines, and compressed natural gas. Pakistan is converting cars, trucks, taxis and buses to compressed natural gas.

▲ Pakistan's telecom sector is the fastest growing in Asia and the third fastest in the world; 45 per cent of the population has access to fixed or mobile phones

Photo: Courtesy of RSW

RSW International, a Montreal-based engineering consultancy firm, has been negotiating five potential joint venture hydro projects with Pakistani companies in the past year.

- **Railway modernization** is an up-and coming sector, with a need for coaches and locomotives, freight management systems, containerization, track enhancement, and automation. "Canadian companies need to position themselves now to be able to win those projects when they come on stream," Karim advises.
- With its industrial boom, Pakistan needs all kinds of **small equipment**, such as moulding machines to make plastic beverage bottles.
- In **aerospace**, private sector airlines have begun flying internationally and will need new aircraft.
- And in the **power sector,** there are tremendous opportunities for Canadian companies. RSW and others are involved in hydro projects as well as thermal and wind energy. Pakistani IT factories and hospitals need small Canadian generators to handle power disruptions. And private sector Hydro Independent Power Projects, of all sizes, are popular.

Over the past year, RSW has been negotiating five potential hydro projects, all of them joint ventures with Pakistani companies. Known for its quality work in 43 countries, RSW's involvement with Pakistan goes back to the late 1970s when some of its engineers worked on the Warsak power plant.

"They have a good reputation for completing projects ahead of schedule and within cost or under cost," Karim says. "They're well-known in Pakistan and have very good networks as well."

RSW President Georges Dick explains that with Pakistan's economic growth, the country needs to develop its own secure energy supply to reduce dependence on imports.

"They changed their attitude and politics with respect to their energy supply," Dick explains, which is why RSW is willing to bring its 30-year worldwide experience in large hydroelectric projects to Pakistan. EDC's support makes it much easier to pursue business there.

"We probably could do it alone but it would be much more difficult," he says.

Meanwhile, EDC is negotiating a risk-sharing deal with three Pakistani banks to ensure small deals less than $3 million happen more easily.

Overall, Canadians should shed old stereotypes about conditions in Pakistan. Now, there are those personal connections with Canada; less bureaucracy; Pakistan is eager to compete against India for investors; and some government boards such as the Private Power and Infrastructure Board are proactive, educated, qualified, experienced and friendly, Karim says. "If they mean business, they mean business and they get it done."

Vissa advises Canadian companies to do their homework first, ensuring that they offer something new or improved. The easiest route is to form joint ventures with Pakistani companies.

"You don't go to Pakistan alone," Vissa says. "You need a foot inside the country to open doors, or you're wasting your time. On your own, it would take forever. They would be polite but nothing would happen."

Help from EDC and Canada's Trade Commission Service is readily available. EDC has supported RSW with letters of interest offering up to 85 per cent financing of the Canadian portion of projects.

"These letters can open a lot of doors because financing is the big dilemma in any country," Vissa says. He also applauds the Trade Commissioners at the High Commission of Canada in Islamabad and at the Consulate of Canada in Lahore and Karachi – and he's dealt with many. "They take the time to accept you," Vissa says. "They listen to you. They write letters, they accompany you."

Karim advises Canadians to choose partners carefully since, as in any market, there are both dubious and honest companies. "If you're cautious, good business can be had," Karim says. Adds Vissa: "Everyone, I believe, is beginning to see that this is a new phase in Pakistan."

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Photo: Courtesy of Joycor

Joycor:
Security Compliance Avoids Border Delays

BY BRUCE GILLESPIE

In the packaging business, timing is everything. No one knows that better than Beatrice Joyce-Corvaglia, owner and chief operating officer of packaging specialist Joycor Inc., in Chatham, Ontario, which sells and manufactures wood pallets and crates. Many of the company's top customers are packagers in Detroit, Michigan, whose schedules are tied closely to the always-changing demands of the city's auto plants. That means Joycor must often ship its packing materials across the border to its clients within four days of the order being placed, bringing new meaning to just-in-time service.

Although on-time delivery has never been a problem for Joycor, Joyce-Corvaglia says increasingly tighter border security measures since September 11, 2001 have added an element of unpredictability to her business. "We have been fortunate not to have lost any customers as a result of border delays," she says, but she isn't counting on luck to keep that happening in the future. Instead, Joycor is becoming certified with the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) program, which will give its shipments priority access during regular border operations as well as access during heightened alerts when normal traffic is held back.

Even though certification can be costly, Joyce-Corvaglia says it's worth it in the end because it will "allow us to have as much control in ensuring our product is delivered to our customers' expectations" and get a leg up on the competition. And by taking advantage of the EDC Security Compliance Loan, Joycor has been able to start the process as soon as possible.

C-TPAT is a voluntary government-business initiative to increase security at the border by strengthening security procedures throughout an exporter's supply chain. Joycor started working toward certification in August 2006 with the assistance of Peter Berry, of OB1 Consulting, in Windsor, Ontario. According to the C-TPAT guidelines, the company had to invest in a host of improvements to make its grounds more secure, including new fencing for its manufacturing and shipping facility as well as a new computer system. Now, Joycor's property is monitored by surveillance cameras and access to its buildings is controlled by swipe card.

On the administrative side, all potential employees are now required to provide security clearance information before being hired and all staff receive specialized training on C-TPAT's standards relating to their respective positions. Joyce-Corvaglia says the major administrative requirements fall to the company's carriers, which must now secure all cargo with load tags, which are then documented on customs forms for ease of tracking. Because drivers themselves are ultimately responsible for their cargo, they must inspect and secure their loads before leaving the company's gated property.

Joyce-Corvaglia estimates the total cost of C-TPAT certification at about $80,000, the majority of which was spent on computers, wiring and fencing. She researched her financing options and settled on EDC's Security Compliance Loan because of its affordability and flexibility.

"The wonderful part of the program is that it allows you to allocate your funds appropriately," she says. For example, she was able to receive half the funds during the winter holidays, when work was slower due to holiday shut-downs at the auto plants and it was easier to install new electrical wiring and computer systems. The remainder of the funds will arrive this spring, when the ground is thawed enough to install new fencing.

Joyce-Corvaglia says she's confident she made the right choice in choosing to become C-TPAT certified; just this past month, one of her company's major suppliers stipulated that it would only continue to do business with Canadian companies that were certified. "When I see these situations after I have been proactive, it's a great confirmation that these efforts are going to be rewarded and recognized." ■

FOR MORE INFORMATION

Joycor:
www.joycorinc.com

EDC Security Compliance Loan:
www.edc.ca/ctpat

OB1 Consulting:
www.ob1consulting.com

Photo: © Photodisc/Getty Images

Global Carbon Market

Presents Opportunities for Canadians

BY DEBORAH BERGER AND KAREN MALLORY

When Canadian firms learn about the global carbon market, their concerns are pretty basic: what is it, and how can we make money from it?

The short answer is by developing projects or selling technologies to projects in other countries that reduce greenhouse gas emissions. Not only can you sell your technology or services for their inherent value, you can also earn credits for the amount of greenhouse gases that the project reduces. These credits are in hot demand worldwide by companies unable to reduce emissions on their own. But getting to that stage involves understanding how credits are earned, certified, valued and sold.

Understanding the carbon market

The carbon market includes the trading of carbon credits amongst countries or companies who are trying to meet mandatory or voluntary greenhouse gas emission "caps" or reduction targets. A carbon credit gives the owner the right to emit one tonne of carbon dioxide, a major greenhouse gas (GHG). These credits can be traded in private transactions between companies or can be traded in exchange platforms similar to those for commodities. The carbon market is growing quickly, and reached an estimated USD 21.5 billion in the first three quarters of 2006 according to the World Bank.[1]

The carbon market provides a financial incentive for companies to find innovative ways to reduce emissions of greenhouse gases. Companies can earn carbon credits by implementing a process or technology that reduces emissions of these gases, and can then sell the excess credits to other parties elsewhere in the world that are unable to easily meet their pollution reduction targets. Such "cap and trade" systems offer the least-cost solution for companies and countries who are striving to mitigate the emission of greenhouse gases. The carbon market creates demand for both new and proven environmental technologies such as those involving switching from coal to natural gas and other energy efficiency initiatives.

For example, a Canadian metals company operating in Latin America can upgrade its smelting technology to reduce its pollution, complete the Kyoto Protocol validation process, and then sell the credits to a private buyer or carbon fund on delivery of the certified emission reduction credits. Thus, GHG emissions would be reduced and innovative technology projects that reduce GHG emissions would be funded (in part) by the polluter. Many large industrial companies in the European Union who are facing tight pollution caps are examples of potential buyers for such credits.

Market Opportunities and Innovation

"With a well-developed environmental technology industry, a slate of large industrial emitters, and a range of consulting services to validate key projects and mitigate risk, Canada is poised to play a leading role," says Corinne Boone, Managing Director, CantorCO2e.

Promising areas include renewable energy projects such as solar, wind power and small hydro and energy efficiency

[1] State and Trends of the Carbon Market Update: (January 1 – September 30, 2006). **http://carbonfinance.org**

projects, and there may be future opportunities for Canadians in carbon capture and storage. Natural Resources Canada has established the Canadian CO2 Capture and Storage Technology Network that is helping to coordinate research, development and deployment efforts of national CO2 capture and storage initiatives.

Transalta and Germany's Hamburgische ElectricitaetsWerke were the first companies to trade across the Atlantic, and Ontario Power Generation has traded CO2 emissions to help it meet its voluntary commitment, beginning in 2000. Suncor, Epcor, and Shell Canada are also watching the file, says Boone. Other Canadian companies that have entered the carbon market via projects that will generate emission credits include Sherritt International Corporation, Biothermica and Polaris Geothermal.

Certified carbon credits

The framework for global trading of carbon credits was established by the Kyoto Protocol. The Secretariat of the United Nations Framework on Climate Change Convention (UNFCCC), is the UN regulatory body responsible for approving and certifying GHG emissions- reducing projects in countries worldwide. Certified credits can then be traded.

"The environmental integrity of this market has to be above reproach," says Doug Russell, Managing Director, Advisory and Research Services, Natsource LLC, one of the world's largest private sector GHG asset managers. "Each project is thoroughly vetted, and the emission reductions are verified and certified by a carefully chosen third party. When the UNFCCC approves a certified emissions reduction unit, you know that it's a valid currency, and it's really good," he says. "The burden of proof is very high for these projects."

The Kyoto Protocol established the largest international cap and trade system whereby governments of developed countries have agreed to limits on the amount of emissions that will be created in their country. If these limits cannot be met in a timely or economic manner, credits can be bought from emission reduction projects in other countries, allowing them to meet their obligations.

The UNFCCC has two main mechanisms for certifying carbon credits and facilitating their exchange between countries and companies. The Clean Development Mechanism (CDM) creates credits from greenhouse gas emission reducing projects in developing countries. The Joint Implementation (JI) mechanism allows credits to be generated from projects in developed countries that are pursuing their own emission reduction targets set under the Kyoto Protocol. One of the key markets for credits certified under the Kyoto mechanisms is the EU, which has put in place the European Emissions Trading Scheme (EU ETS), a mandatory compliance program to help EU governments meet their Kyoto obligations. With all 27 member states using this system, it is the largest multi-country, multi-sector emissions trading scheme in the world and was valued at USD 18.9 billion through the first three quarters in 2006. Various regional, national and voluntary markets also exist in the US, Japan and New Zealand.

Market logistics

The carbon market is a seller's market – more companies are seeking to purchase carbon credits than there are credits currently available. Therefore, Canadian companies selling their emission-reducing technologies abroad can expect to gain extra value from the carbon credits earned through the implementation of their products and services.

But converting that value into revenue can be complex. Exchange platforms and auctions are being established to simplify transactions and mitigate risk. More than 22 carbon funds have been created to purchase or trade ER credits globally. Most of the funds aim to repay their investors in carbon credits rather than cash.

Natsource has set up a fund to buy carbon credits on behalf of industry players who have to meet regulated emission reductions. Like a diversified portfolio, the pool lowers the risk for any individual investor, and broadens the investment reach across different countries. "Large enterprises are not in the business of buying and selling credits," says Doug Russell. "We assemble a pool and manage it on their behalf."

Governments have also set up funds on their own or though entities such as the World Bank in order to meet their reduction commitments. Canada has invested in two World Bank funds which finance and develop emission reduction projects.

One way to navigate these markets is to use the services of a broker such as CantorCO2e. "We serve all of the principal emissions markets, including the Kyoto CDM, JI and European Emissions Trading markets," says Corinne Boone. "CantorCO2e helps companies transact via electronic trading screens, recorded telephone lines, auctions and negotiated contracts."

EDC facilitates the international transactions of hundreds of Canadian environmental technology exporters every year and is considering how it may be able to help Canadian companies participating in emission reduction projects. ■

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Natural Gas Joint Venture in Turkey

Photo: Courtesy of Terasen Palmet

▲ As Turkey experiences growth in energy consumption, its dependence on imports of oil and natural gas grows.

With its pivotal location at the crossroads of the Caspian and Gulf regions, Turkey is emerging as an important regional energy player, offering opportunities beyond its borders as well.

"Turkey is playing a key role as a regional transit point and is on its way to becoming a gas transportation hub," says Burak Aktas, EDC's Regional Manager for Southeast Europe and the Baltics. Europe, for example, which is looking for secure sources to diversify its supplies, is financing a 296 km-long pipeline that will connect the Turkish, Greek and Italian gas grids.

Turkey is also experiencing substantial growth in its energy consumption and is dependent on imports, mainly oil and natural gas. "There has been a steep increase in demand and the government is looking at a range of alternative sources, opening doors for Canadian equipment and service suppliers in the energy sector," says Aktas.

With the dual aim of deregulating the industry and increasing natural gas consumption throughout the country, the Turkish government has issued licences to private companies for the distribution of natural gas in over 50 cities. Parallel to this, privatization of existing distribution companies is underway. This trend is presenting opportunities for Canadian direct investment in Turkey, such as the Palmet-Terasen Joint Venture (PTJV).

Joint ventures

PTJV was established in 2003 by Vancouver-based Terasen International (TII) and Palmet Industry of Istanbul. Its core business consists of providing engineering, procurement and construction (EPC) and distribution services to Palmet subsidiaries Palen and Palgaz. PTJV is also active in wholesale natural gas marketing and the sale and service of residential piping and appliances.

Formerly known as BC Gas, TII has more than 50 years of engineering, construction and operational experience in natural gas distribution, transmission and related facilities. A subsidiary of Texas-based Kinder Morgan since 2005, TII has carried out more than 70 international projects. Palmet is a project management and construction/contracting firm founded in 1984 that provides engineering services to the telecom, IT infrastructure and energy sectors in Turkey.

TII and Palmet's collaboration began when the Canadian company learned about Turkey's plans to privatize the natural gas sector and issue tenders for the award of natural gas distribution licenses in several cities. "We embarked on a series of visits to Turkey to meet with various contractors and industry players to learn about these initiatives and to assess which company would be best to partner with," says Bill Paine, Vice-President Sales at TII.

In 2005, EDC provided Palmet with a USD 10 million line of credit to support the development of these and future natural gas distribution networks in Turkey.

"After short-listing a number of prospective partners, we decided to negotiate a joint venture agreement with Palmet," says Paine.

Palmet had prepared well for the upcoming tenders, having done extensive market and techno-economic feasibility studies of natural gas opportunities in several cities and regions. Terasen also found that Palmet had strong ownership and management and was a leading Turkish contractor in a related business area – the telecom industry. But the fit was also important to Terasen.

"We shared a similar business outlook and developed a strong friendship with Palmet's owner, Mr. Doganay Samuray, and his team from the outset," Paine notes.

Based on TII's previous experience in several countries, a joint venture structure was the way to go because it is the most effective method of achieving both partners' business objectives. "In a JV, each partner's expertise is combined in the most efficient manner, while reducing potential disputes over who is awarded each component of the work," Paine explains.

Both parties have a vested interest in maximizing the JV's net income as each one shares in the profits. In this respect, it was important to both companies to reduce the use of higher-cost Canadians as early in the life of the JV as possible and replace them with skilled and trained local Turkish personnel. Providing a mechanism and incentive to transfer expertise and technology from the Canadian partner to the local JV employees was essential.

TII initially contributed engineers, construction and operations specialists to work with Palmet's own resources and to train their Turkish counterparts. PTJV subsequently hired experienced local staff to complement Palmet's management and workforce. "We have found that when collaborating with a local industry leader such as Palmet, the transfer of knowledge often flows in the other direction, back to the Canadian partner," adds Paine.

Palen and Palgaz have each been awarded 30-year licenses to distribute natural gas to some 60,000 residential and industrial customers in Gebze – one of Turkey's largest industrial centres, located just outside Istanbul – and the densely populated city of Erzurum in Eastern Turkey. The two Palmet subsidiaries are currently carrying out feasibility studies towards obtaining gas distribution licences for other cities in the coming years.

In 2005, EDC provided Palmet with a USD 10 million line of credit to support the development of these and future natural gas distribution networks in Turkey. In parallel with EDC's support, Palmet received a USD 12 million loan from the International Finance Corporation (IFC), the private sector arm of the World Bank. As a prerequisite for their respective financings, EDC and the IFC requested guarantees from Finansbank, a major Turkish bank.

EDC proposed a line of credit structure to Palmet instead of direct loans to Palen and Palgaz in order to facilitate financing of future licensees, explains Ray Gingras, Financing Manager with EDC's Extractive Industries and Resources Team. "As new licences for gas distribution are awarded, Palmet can simply request a new allocation under the line of credit and make the proceeds available to the newly created subsidiaries."

Back in Canada, TII has identified equipment that could be Canadian-sourced for the project, and is soliciting bids from domestic suppliers. "We have provided a list of Canadian manufacturers that could benefit from sub-supply contracts for components to be used in pressure reducing stations," says Paine. "We also stay in close touch with EDC about other opportunities in Turkey that could be of interest to Canadian firms." These include further EPC and O&M contracts awarded to Palmet and other license holders, potential future equity investments in gas distribution companies, natural gas marketing and consulting.

TII has been working closely with EDC since 1996 when it started a two-year engineering assignment as part of the Ankara Phase 2 Gas Distribution Project, in which EDC provided financing to TII's client, a major Turkish contractor. "TII has also utilized, most successfully, EDC's receivables insurance, performance guarantees and wrongful call insurance in a recent project in the Middle East, without which we would have faced very serious financial consequences," says Paine.

From the perspective of the Turkish company, the relationship with EDC has been just as positive. "Since TII introduced us to EDC, they have been very helpful and a pleasure to work with," says Doganay Samuray, President of Palmet.

Paine has no hesitation in encouraging other Canadian exporters to enter the promising Turkish market and offers a few pointers. "There are many opportunities in this dynamic, growing and business-friendly country. Don't underestimate the level of sophistication and competence of Turkish companies," he advises. "Do your homework in terms of understanding what is required of your company and where you may be able to add value, and put a lot of effort into finding the right partner. For this and other intelligence, consult with EDC." ■

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EDC Sponsors

Student Trade Missions

BY PETER DIEKMEYER

Potential exporters with small budgets benefit from export-related market development, research and analysis work done by students.

Like many marketing directors who work in highly segmented industries, Guy-Ann Paquet faces unique challenges. The company that she works for, Rayco-Wylie Systems, makes world-class crane monitoring equipment. The market is global in scope and Rayco-Wylie has only four or five direct competitors.

So you'd think that Paquet would have access to big marketing and travel budgets, so that she could organize trade shows around the world to demonstrate the company's capacity, load and boom angle indicators and its graphical user interfaces.

Not quite. "Although we export 70 per cent of our production, we are a small company. We only have 50 employees and we need to manage our export budgets carefully," Paquet said. "That means our efforts are highly targeted and we always look for new ideas that can give us an edge."

Three years ago, Paquet got a call from students at the University of Laval who proposed just such an idea. The callers were part of the university's *Missions Commerciales*, an EDC-sponsored program which enlists students to take part in overseas trade missions. During their trips, they conduct market development, research and analysis for real companies. The students don't charge for the work, though participating companies pay a small stipend to cover the travel expenses.

Paquet understood the value of student trade missions. In fact, she had been on one herself when she was completing her MBA during the late 1990s.

Furthermore, Rayco-Wylie Systems had long been interested in developing many of the markets that the students were planning to visit in the coming years, including Spain, Peru, Chile and Russia. "The fit was perfect," said Paquet. "There are many countries in which there is demand for our product. But it's hard for us to figure out which ones have the best potential. The student trade missions were a good tool to help us make these evaluations."

Missions Commerciales

Rayco-Wylie Systems wasn't the only company to take advantage of the University of Laval's trade missions. During the past 10 years, the university has helped more than 160 Quebec companies, including CGI, Bell, Prevost Car and Doral, to pursue opportunities in overseas markets, many of which have resulted in substantial successes.

For example, the university's mission to Poland helped Unibroue consolidate its position in the Polish market. And as a result of last year's mission to Chile, Bennett Fleet was able to sign a distribution agreement with a local player. Sometimes the benefits to the participating companies go beyond trade. And following a 2005 mission in Spain, Medical Intelligence gave the agent that was working on their file a full-time job.

And 27 more students are headed on trade missions this year, to China, Russia and Argentina, adds Georges-Alexandre Rodrigue, a communications and financing coordinator at the University of Laval. "We try to focus on emerging markets where there is a lot of growth potential," said Rodrigue. "This adds more value because emerging markets tend to be less accessible to companies than those of Western countries."

How companies can benefit

According to one veteran student trade mission supporter, the program can be a big help. However, he cautions that there are some ways that companies can get the best value.

"The important thing is to sponsor students who are going to places where your company already has the potential to do business," says Mario Grenier, President of PyroMaître, a manufacturer of heat treating machinery which is widely used in the auto-parts sector. "For example, this year we are supporting students that are participating in missions to China and to Russia. We will be able to use that information right away, because we already have an agent based in Germany who services Russia. We also have a partner in China."

After every trade mission, Grenier receives a detailed report about prospects in the country that the student has visited. While the reports are filled with statistics, sector analyses, market information and other data, as a hands-on manager, the parts Grenier likes the best are the leads.

EDC's sponsorship of student trade missions, as part of its Education and Youth Employment (EYE) Strategy, helps to promote the importance of foreign trade. Pictured here: Engineers Without Borders participants visit a Brazilian factory in 2006

"At the end of the day, what we really want are the names and phone numbers of people to call," says Grenier. "But it's important that companies do follow up. If they just leave the reports on their desks, they may as well forget it."

Ironically, Grenier is so bullish on the student trade mission program that he believes that Pyromaître gained considerably from one mission it backed to South America, even though it turned out that there were few opportunities there.

"There were no leads. And we clearly saw that at the time there was no potential," say Grenier. "However, the initiative saved us a lot of time and money. If we had sent our own people down there to find that out, it would have cost us a lot more."

A student's experience

Simon Laliberté-Riverin, a student currently volunteering as communications director and organizer of the University of Sherbrooke's Engineers Without Borders program, says one of the keys to success is choosing the right people.

As its name implies, Engineers Without Borders' trade mission participants are mostly engineering students, though the focus of their mandates is typically market-oriented.

That said, last year's initiatives in Brazil included research in the fields of sustainable development and technology transfers, both of which required participants to bring specialized skills and a "can do" attitude to the table.

"The students need to be highly motivated," says Laliberté-Riverin. "The program requires a lot of effort, starting from finding the right companies to participate, to the preparation and the follow-up work afterwards."

The University of Sherbrooke has sent more than 200 engineers on overseas trade missions during the past 17 years. Like many other candidates, Laliberté-Riverin got wind of the program by listening to the experiences of previous years' participants. "Students need to be able to manage their time properly, otherwise the trade missions cut too much into their studies," says Laliberté-Riverin.

As a result of the time demands, Engineers Without Borders, which is currently recruiting candidates for its 2008 mission, seeks out students with strong academic records who are better able to manage the demands on their schedules. However, a student's personal goals and a strong interest in international affairs also count.

EDC student trade missions

According to EDC partnership advisor Diane Belliveau, the organization's sponsorships of student trade missions – a key element of EDC's Education and Youth Employment (EYE) program – are an inexpensive way to promote the importance of foreign trade among a variety of key interest groups, including students, current and potential exporters as well as other stakeholders.

"Exporting is an increasingly important part of doing business in today's economy and the sooner that students learn about the mechanisms, the better," says Belliveau. "Another of the program's big advantages is the fact that many participating companies are in the initial stages of getting involved in new markets, which they have not been otherwise able to pursue."

In fact, the trade missions have been so successful that EDC is keeping its door open to other universities that are considering launching similar initiatives. ■

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Focus on the United States

Photo: © GETTY/Andy Sacks

American Heartland: The Great Lakes Region

BY DENNIS AND SANDI JONES

The number-one market for Canadian exporters lies to the south and west of the Great Lakes, in the traditional industrial heartland of America. In the diversity and scale of its opportunities, from automobile manufacturing to pharmaceutical research, the region has few equals in the United States.

It's comprised of only a handful of states: Michigan, Ohio, Indiana and Kentucky, but it's the destination for more than a quarter of Canada's U.S. exports; in 2005, Canada shipped $343.3 billion worth of goods south of the border, of which $88.8 billion, or 25.9 per cent of the total, went to these four states alone. By way of comparison, that was 10 times as much as Canada sent to its next-largest trading partner, Japan.

The largest dollar portion of Canadian shipments to the region is made up of traditional exports such as vehicles and their components, oil and gas, metals and lumber. But there's a lot more to the market than these familiar staples, says Doug Bingeman, Consul and Senior Trade Commissioner at Canada's Consulate General in Detroit. Bingeman's trade team covers the Great Lakes Region, and works hard to promote Canadian trade interests there.

"The region has major economic strengths," Bingeman says. "Advanced manufacturing technologies, together with automotive manufacturing and services, continue to dominate, despite the ongoing restructuring of the auto sector. The region is strong in many other areas as well, including medical technology, pharmaceuticals, agri-food and energy."

From autos to agri-food

While the North American auto industry has clearly been struggling, the sector still has a significant presence in the region, including associated sectors, such as rubber, plastics and vehicle electronics. The automotive industry also commands the largest private-sector R&D budget in the United States, and numerous global corporations have established engineering offices, sales offices and research centres in the region.

As a result, it has attracted a large concentration of high-technology companies and service firms related to the automotive sector.

"Medical and pharmaceutical research is another good bet," adds Bingeman, "and American firms are open to the services, products and partnerships that Canadian companies can offer. There's also a big agri-food export potential; Canadian wine, for instance, is potentially a lucrative export. Housing construction has softened, as it has in most of the United States, but we continue to see real opportunities here for value-added goods such as windows, doors, engineered wood products and, potentially, manufactured housing."

Another sector with major potential is clean energy and its associated products

EDC AND THE GREAT LAKES REGION

The total value of all Canadian merchandise exports to the United States in 2005 was $343.3 billion, of which the Great Lakes Region's share was $88.8 billion. EDC's Short-Term Insurance programs approved more than $1.7 billion in buyer credit limits to more than 6,400 buyers in the Great Lakes.

and services, including R&D, manufacturing and market deployment. Biofuels and alternative fuels are of considerable interest to American companies, and the consulate recently took a team of experts from the Canadian Clean Coal Power Coalition to Columbus, Ohio, for discussions on power generation technology.

Canadian exporters to the Great Lakes Region can find many forms of assistance through the local organizations that promote industrial development and cross-border trade. Among these are the Great Lakes Manufacturing Council, which focuses on preserving and enhancing the manufacturing sector in the region, and the Detroit Regional Chamber of Commerce, whose 22,000 members represent a vast range of economic sectors.

Canadian exporters can find many more resources through the World Trade Associations in Cleveland, Cincinnati, Louisville, Indianapolis and Detroit, and through sector-related organizations such as the Society of Manufacturing Engineers and the Society of Automotive Engineers. The consulate trade team is in regular contact with these organizations and is well-positioned to help exporters navigate this enormous market.

"We work with 600 to 800 Canadian companies annually," says Bingeman, "and help them find contacts and information. We're always scouring specific sectors for resources and opportunities, and we make Canada's presence known wherever we can. For the past 21 years, for example, we've had a booth at the SAE annual trade show, where Canadian companies can join us to showcase their products and services."

The view on the ground

Based in Paris, Ontario, Mitten Inc. is a vinyl siding manufacturer that employs about 300 people. It was founded almost 50 years ago and has been exporting to the Great Lakes Region for more than a decade. Mitten formerly had several company-owned branches in the northeastern U.S., but closed them in the early 1990s and now sells directly to U.S. distributors.

"Our primary U.S. markets have so far been the East Coast and the southern states," says Mitten's Vice-President of Finance, Andrew Vann, "but we've been active in the Great Lakes Region since the 1990s, and we see it as having real potential. We already sell many products into Kentucky and Ohio, and some into Michigan, and we just hired a sales professional to help drive our growth in the area."

The firm's strategy for expanding into the Great Lakes Region is to develop a market niche as a secondary supplier to the area's distributors. "The distributors like to buy from the big U.S. manufacturers," says Vann, "so we price ourselves a little below these primary suppliers to give them a different option. We don't want to be anybody's number-one supplier, but rather a reasonably priced alternative to the big players."

As a result, Mitten doubled its U.S. sales during the past four years. But there have been some challenges; U.S. distributors can be reluctant to deal with smaller Canadian firms, and it took a strong sales effort on Mitten's part to turn this around. The rising Canadian dollar also cut into the company's U.S. profits, but Mitten had prepared for this by setting up a hedging strategy that protected it from major foreign-exchange risks.

EDC has played an important role for Mitten's U.S. operations. "They've helped us with our risk on the receivables side," says Vann. "We're seasonal, like all construction-industry companies, and EDC assistance with our cash flow has been crucial for expanding our business. Their market intelligence and support also helps us make sure we aren't selling to fly-by-night corporations. The relationship has been very positive for us, and we certainly plan to keep on using EDC's services."

Mitten has learned how to adapt to the U.S. market, and this experience is underpinning its expansion into the Great Lakes Region. For companies still at the beginning of the learning curve, Bingeman has some advice about moving into this lucrative territory.

"Many Canadian companies export to this region because it's one of the most accessible of all U.S. markets," he observes. "However, your success is more likely if your senior management invests sufficient time and money in looking at the market, and remains committed to the initiative after market entry. You must also have the manufacturing and financial capacity to cope with unexpectedly large orders from American customers, and you must develop a good line of distribution using American distributors or agents – that's something our office can often help you with. And you'll need a good customs broker."

Bingeman is emphatic about the area's importance for Canadian companies. "A great deal of Canada's U.S. trade is tied to the Great lakes Region," he says, "but it still contains unexplored worlds of opportunity. Those opportunities are literally on Canada's doorstep, and our trade team is always on the lookout for companies that want to pursue business here." ■

Photo: Courtesy of Mitten Vinyl

▲ Vinyl siding manufacturer Mitten Inc. doubled its U.S. sales in four years by creating a market niche and expanding to the Great Lakes Region.

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EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

Insurance

Are you sure your U.S. or foreign customer will pay?

Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?

Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?

Protect yourself with EDC Performance Security Insurance which covers 95 per cent of your losses on a wrongful call or a call resulting from events outside your control, such as war.

For information on these and other insurance products, visit **www.edc.ca/insurance**.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?

If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?

EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Working Capital

Could you use more working capital?

With EDC Master Accounts Receivable Guarantee, smaller exporters can obtain up to $500,000 in additional working capital from their bank by guaranteeing their operating line with their secured foreign accounts receivable.

Need money to get your export contract out the door?

EDC provides Pre-shipment Financing to help smaller exporters finance their export sales. EDC will guarantee up to 75 per cent of a loan made by a financial institution to an exporter, to fund pre-shipment costs necessary to complete an export contract.

Do you need protection against currency fluctuations?

Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts. With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

Bonding

What if my buyer demands a bond?

You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

Online Services

Will your customer pay?

Get a credit profile for as little as $30 with EXPORT*Check*. We have more than 100 million companies in our database.
www.edc.ca/exportcheck

Want to export with peace of mind?

Give your foreign customer time to pay and protect against non-payment with EDC's EXPORT*Protect*. Quick. Secure. Affordable.
www.edc.ca/exportprotect

Looking for information on export finance?

The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle.
www.edc.ca/efg

Want some market insight that will actually help you make a decision?

Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor

EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs.
www.edc.ca/advisor

Are you ready to enter the export market?

Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

Do you need to make a claim?

EDC has an online tool called eExpress Claims that Accounts Receivable Insurance customers can use to file claims up to $5,000. To access this tool, register with EDC Direct, the customer-only section of EDC's website, by calling your underwriter or the EDC Help Desk at 1-888-649-8287 weekdays from 8 a.m. to 6 p.m. EST. For claims above $5,000 and general claims information, call one of EDC's Claims Services Managers at 1-866-638-7946 or visit us at **www.edc.ca/claims.**

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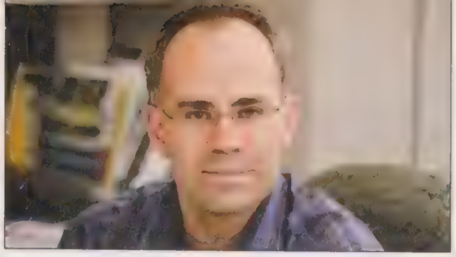

Michael Toope,
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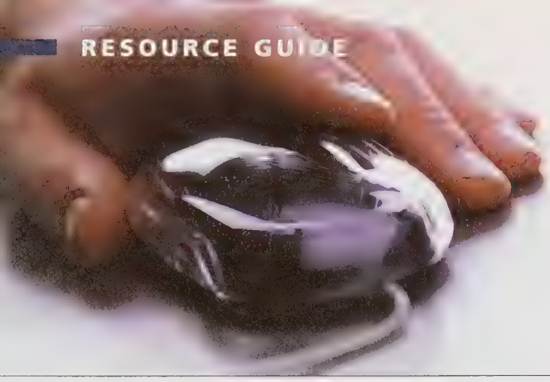
Here are some highlights of the summer edition of *ExportWise*.

Hot construction markets in the GCC and Caribbean Canadian companies in the construction sector are winning contracts within the states of the Gulf Cooperation Council (GCC) and the Caribbean as governments in both regions undertake significant infrastructure development and as private sector construction projects follow suit. The investment taking place in these regions is huge and ongoing, suggesting there may be room for additional Canadian players. We will talk to Canadian companies which are already active in these markets and to local buyers with ongoing international procurement plans.

Saudi Arabia branches out The Middle East is currently experiencing huge investment and construction booms, and Saudi Arabia is at the very core of this development frenzy. From business and residential development to large-scale infrastructure, from oil and natural gas to industrial development, the public and private sectors of Saudi Arabia are investing heavily in the future of their country. Opportunities for Canadian companies in engineering, the environment, design and architecture, construction and construction materials are unprecedented. We will get some insights from Canadian companies already active there on how to tap these opportunities.

Growth Capital from Wellington Financial EDC is a partner of Wellington Financial which occupies a unique niche within the Canadian Private Equity arena. Through limited partnership funds, they provide venture and mezzanine debt to venture-backed, commercial-stage companies, and the smallest companies within the Middle Market category. Companies supported by Wellington, typically, are in a high growth mode, requiring significant injections of capital. Wellington targets companies in sectors with high export and growth profiles, including: automation, automotive parts, biotechnology and healthcare, business services, light manufacturing, oil & gas services, and information technology.

Bilateral free trade agreements Early in 2007, Canada participated in new rounds of negotiations on bilateral free trade agreements with both South Korea and Singapore. We'll review the issues being discussed in these recent rounds and the benefits such agreements will bring to Canadian exporters and investors.



Trade Resources

A list of associations and government agencies dedicated to helping Canadian businesses succeed.

Federal Government Agencies

Business Development Bank of Canada (BDC):
www.bdc.ca
BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

Virtual Trade Commissioner:
www.infoexport.gc.ca
Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner. This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC.

Canada Business:
www.cbsc.org
Canada Business reduces the complexity and burden of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements for business.

Canadian Commercial Corporation (CCC):
www.ccc.ca
The CCC's mission is "to serve as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions."

Canadian Consular Affairs Bureau:
www.voyage.gc.ca
The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

Foreign Affairs and International Trade Canada:
www.international.gc.ca
Foreign Affairs and International Trade Canada supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful and secure world.

Team Canada Inc.
www.exportsource.ca
Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

Provincial Government Agencies

ALBERTA

Trade Team Alberta:
www.alberta-canada.com/tta
Trade Team Alberta [TTA] is a partnership of the Governments of Canada and Alberta, working together to enhance international business opportunities for Albertans.

MANITOBA

MTI: Manitoba Trade and Investment:
www.gov.mb.ca/trade
Manitoba Trade and Investment's mission is to help build the Manitoba economy through increased exports as well as to attract and retain foreign direct investment.

NEW BRUNSWICK

Business New Brunswick – Export Development Branch:
www.gnb.ca/0398/export/index-e.asp
Business New Brunswick's Export Development Branch specializes in providing one-on-one counselling and specialized services to export-ready companies and existing exporters.

NEWFOUNDLAND AND LABRADOR

www.gov.nf.ca/doingbusiness
A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

NOVA SCOTIA

Nova Scotia Business Inc.:
www.novascotiabusiness.com
NSBI offers a number of export development programs and services that assist small- to medium-sized businesses and local exporters entering new markets.

ONTARIO

International Trade Development:
www.ontarioexportsinc.com
The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

PRINCE EDWARD ISLAND

Prince Edward Island Business Development:
www.peibusinessdevelopment.com
The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

QUEBEC

Services for businesses:
www.entreprises.gouv.qc.ca
Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

Investissement Québec:
www.investquebec.com/en
Original and flexible, its financing products work for companies, cooperative businesses and non-profit organizations at every stage: start-up, expansion, export, R&D activities, merger and acquisition.

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at **1-888-332-9398**.

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at **1-888-332-3777**.

SASKATCHEWAN

STEP: Saskatchewan Trade & Export Partnership:
www.sasktrade.sk.ca

STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

Associations

Canadian Manufacturers and Exporters:
www.cme-mec.ca

Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels. Its mandate is to promote the competitiveness of Canadian manufacturers and enable the success of Canadian goods and services exporters in markets around the world.

Canadian Chamber of Commerce:
www.chamber.ca

As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

Canadian Federation of Independent Business:
www.cfib.ca

CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector. Taking its direction from CFIB members through regular surveys, CFIB lobbies for small- and medium-sized businesses at the federal, provincial and local levels of government.

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